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AZ CORP COMMISSION
DOCKET CONTROL

Transcript Exhibit(s)

2014 MAY 8 PM 3 22

Docket #(s): S- 20898A - 13 - 0395

Part 1 of 3

For Part 2 see barcode 0000153297

For Part 3 see barcode 0000153298

Arizona Corporation Commission

DOCKETED

MAY 08 2014

DOCKETED BY

Exhibit #: R1 through R26, S1, S2a, S2b, S3

S4a, S4b, S5 through S14, S15a, S15b, S15c

S15d, S16 through S18, S19a, S19b, S19c,

S20a, S20b, S20c

**LIMITED LIABILITY COMPANY OPERATING AGREEMENT
FOR**

Longest Drive, LLC

THIS LIMITED LIABILITY COMPANY OPERATING AGREEMENT (the Agreement) is made

and entered into as of the 26 day of April, 2002 (year) by and among:

Michael J. Blake

John Huffman

David Rudick

R. Blake Ridgway

Jim Wellborn

see attached roster for updated members as of date -
and each individual or business entity as shall be subsequently admitted to the Company. These

individuals and/or business entities shall be known as and referred to as "Members" and individ-

ually as a "Member." WHEREAS, the parties have formed a Limited Liability Company named

above through their initial registered agent Michael J. Blake pursuant to the

laws of the State of Arizona. NOW, in consideration of the conditions and

mutual covenants contained herein, and for good and valuable consideration, the parties agree

upon the following terms and conditions:

ARTICLE I: COMPANY FORMATION

1. The members hereby form and organize the company as a Limited Liability Company subject to the provisions of the Arizona Limited Liability Company Act in effect as of this date. Articles of Organization shall be filed with the Arizona Secretary of State.

2. The members agree to execute this Operating Agreement and hereby acknowledge for good and valuable consideration receipt thereof. It is the intention of the members that this Operating Agreement shall be the sole source of agreement of the parties.

In the event any provision of this Operating Agreement is prohibited or rendered ineffective under the laws of Arizona, this Operating Agreement shall be considered amended to

conform to the LLC Act as set forth in the Code of Arizona. The

invalidity of any provision of this Operating Agreement shall not affect the subsequent validity

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of any other provisions of this Operating Agreement.

3. NAME. The name of the company shall be Longest Drive, LLC

The business of the company shall be conducted under that name or such trade or fictitious names as the members may determine.

4. DATE OF FORMATION. This Operating Agreement shall become effective upon its filing with and acceptance by the appropriate state agency.

5. REGISTERED AGENT AND OFFICE. The company's initial registered agent and registered office shall be Michael J. Blake, 9900 N. 52nd Street, Paradise Valley, AZ 85253

Managing members may change the registered agent or registered office at any time, by filing the necessary documents with the appropriate state agency. Should managing members fail to act in this regard, any member may file such notice of change in registered agent or registered office.

6. TERM. The company shall continue for a period of thirty (30) years from the date of formation unless:

- a) The term is extended by amendment of the Operating Agreement. Members shall have the right to continue the business of the Company and may exercise that right by the unanimous vote of the remaining Members within ninety (90) days after the occurrence of the event described below.
- b) The company is dissolved by a majority vote of the membership.
- c) The death, resignation, expulsion, retirement, bankruptcy, incapacity or any other event that terminates the continued membership of a Member of the Company.
- d) Any event which makes it unlawful for the business of the Company to be carried on by the Members.
- e) Any other event causing the dissolution of a Limited Liability Company under the laws of the state of Arizona

ARTICLE II: BUSINESS PURPOSE

It is the purpose of the Company to engage in commercial real estate investment. The foregoing purposes and activities will be interpreted as examples only and not as limitations, and nothing therein shall be deemed as prohibiting the Company from extending its activities to any related or otherwise permissible lawful business purpose which may become necessary, profitable or desirable for the furtherance of the company objectives expressed above.

ARTICLE III: CAPITAL CONTRIBUTIONS

1. INITIAL CONTRIBUTIONS. Each Member shall contribute to the Company capital prior to or simultaneously with, the execution of this Agreement. Each Member shall have made initial capital contributions in the following amounts:

Name of Member	Value of Capital Contribution
Michael J. Blake	\$100,000
John Huffman	\$50,000
David Rudick	\$30,000
R. Blake Ridgeway	\$20,000
Jim Walbourn	\$50,000

No interest shall accrue on initial capital contributions.

see attached roster for updated members and capital contribution as of date —

2. ADDITIONAL CAPITAL CONTRIBUTIONS. If management decides that additional capital contributions are necessary for operating expenses or to meet other obligations, notice must be sent to each Member setting forth each Member's share of the total contribution. Such notice must be in writing and delivered to the Member at least ten (10) business days prior to the date the contribution is due. Any such additional capital contribution is strictly voluntary and any such commitment is to be considered a loan of capital by the Member to the Company. Such additional capital contribution does not in any way increase percentage of membership interest. This loan shall bear interest at 1% points above the current prime rate. Any loan under this subsection shall be paid in full before any distributions are made under Article IV.

3. **THIRD PARTY BENEFICIARIES.** Nothing in the foregoing sections is intended to benefit any creditor or third party to whom obligations are owed without the expressed written consent of the Company or any of its Members.

4. **CAPITAL ACCOUNTS.** A capital account shall be established by the Company for each Member. The capital account shall consist of:

- a) The amount of the Member's Capital Contributions to the Company including the fair market value of any property so contributed to the Company or distributed by the Company to the Member.
- b) Member's share of net profits or net losses and of any separate allocations of income, gain (including unrealized gain), loss or deduction. The maintenance of capital accounts shall at all times be in accordance with the requirements of state law.

5. **ADDITIONAL PROVISIONS:**

- a) Capital accounts shall be non-interest bearing accounts.
- b) Until the dissolution of the company, no Member may receive Company property in return for Capital contributions.
- c) The liability of any member for the losses or obligations incurred by the Company shall be limited to: Payment of capital contributions when due, *pro rata* share of undistributed Company assets and only to the extent required by law, any previous distributions to that Member from the Company.

ARTICLE IV: PROFITS, LOSSES ALLOCATIONS AND DISTRIBUTIONS

1. **ALLOCATIONS.** Net profits, losses, gains, deductions and credits from operations and financing shall be distributed among the Members in proportion to their respective interest and at such time as shall be determined by the Members.

2. **DISTRIBUTIONS.** Management may make distributions annually or more frequently if there is excess cash on hand after providing for appropriate expenses and liabilities. Such interim distributions are allocated to each Member according to percentage of membership interest.

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ARTICLE V: MANAGEMENT

1. MANAGING MEMBERS. The names and addresses of Managing Members are:

Michael J. Blake - 9900 N. 52nd St, Paradise Valley AZ 85253 - *Member only*

John Huffman - 5239 E. Turquoise Ave, Paradise Valley AZ 85253 *Member only*

David Rudick - 5908 Killarney Ln S, Edina MN 55436 *Member only*

R. Blake Ridgeway - 5016 Calle Alta NE, Albuquerque NM 87111 *Member only*

Managing Members shall make decisions regarding the usual affairs of the Company. A majority vote of the membership shall name as many managers as the Membership deem necessary and the membership shall elect one Chief Operating Manager who is responsible for carrying out the decisions of the managers.

2. NUMBER OF MANAGERS. The membership may elect one, but not fewer than one, manager. *Blake*

3. TERM OF OFFICE. The term of office is not contractual but continues until:

- a) A fixed term of office, as designated by the membership, expires.
- b) The manager is removed with or without cause, by a majority vote of the membership.
- c) The dissociation of such manager.

4. AUTHORITY OF MANAGERS. Only managing members and authorized agents shall have the power to bind the Company. Each managing member is authorized on the Company's behalf to:

- a) Purchase, or otherwise acquire, sell, develop, pledge, convey, exchange, lease or otherwise dispose of Company assets wherever located.
- b) Initiate, prosecute and defend any proceeding on behalf of the Company.
- c) Incur and secure liabilities and obligations on behalf of the Company.
- d) Lend, invest or re-invest company assets as security for repayment. Money may be lent to members, employees and agents of the Company.
- e) Appoint officers and agents, and hire employees. It is also the province of management to define duties and establish levels of compensation. Management compensation will be determined by majority Membership vote.
- f) Execute and deliver all contracts, conveyances, assignments, leases, subleases, franchise and licensing agreements, promissory notes, loans, security agreements or any other kind relating to Company business.

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- g) Establish pensions, trusts, life insurance, incentive plans or any variation thereof, for the benefit of any or all current or former employees, members and agents of the Company.
- h) Make charitable donations in the Company's name.
- i) Seek advice from members not part of elected management, although, such advice need not be heeded.
- j) Supply, upon the request of any Member, information about the Company or any of its activities including but not limited to, access to company records for the purpose of inspecting and copying company books, records and materials in the possession of management. The Requesting Member shall be responsible for any expenses incurred in the exercise of these rights set forth in this document.

5. STANDARD OF CARE AND EXCULPATION. Any member of management must refrain from engaging in grossly negligent, reckless or intentional misconduct. Any act or omission of a member of management that results in loss or damage to the company or Member, if done in good faith, shall not make the manager liable to the Members.

6. INDEMNIFICATION. The Company shall indemnify its Members, Managers, employees and agents as follows: *(No expenses other than legal, accounting, or escrow accounts).*

- a) Every Manager, agent, or employee of the Company shall be indemnified by the Company against all expenses and liabilities, including counsel fees reasonably incurred by him in connection with any proceeding to which he may become involved, by reason of his being or having been a Member of the Company or having served at the request of the Company as a Manager, employee, or agent of the Company or any settlement thereof, whether or not he is a manager, employee or agent at the time such expenses are incurred, except in such cases wherein the Manager, agent or employee is adjudged guilty of willful misfeasance or malfeasance in the performance of his duties; provided that in the event of a settlement the indemnification herein shall apply only when the Managers approve such settlement and reimbursement as being for the best interests of the Company.

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- b) The Company shall provide to any person who is or was a Member, Manager, employee, or agent of the Company or is or was serving at the request of the Company as Manager, employee, or agent of the Company, the indemnity against expenses of suit, litigation or other proceedings which is specifically permissible under applicable law.

ARTICLE VI: TAX AND ACCOUNTING MATTERS

1. **BANK ACCOUNTS.** Management shall establish bank accounts, deposit company funds in those accounts and make disbursements from those accounts.
2. **ACCOUNTING METHOD.** The cash method of accounting shall be the accounting method used to keep records of receipts and disbursements.
3. **TMP.** A Tax Matter Partner shall be designated by the management of the company as designated by the IRS Code.
4. **YEARS.** The fiscal and tax years of the Company shall be chosen by management.
5. **ACCOUNTANT.** An independent accountant shall be selected by management.

ARTICLE VII: MEMBER DISSOCIATION

1. Upon the first occurrence of any of the following events, a person shall cease to be a member of the Company:
 - a) The bankruptcy of the member.
 - b) The death or court-ordered adjudication of incapacity of the member.
 - c) The withdrawal of a member with the consent of a majority vote of the remaining membership.
 - d) The dissolution and winding up of the non-corporate business member including the termination of a trust.
 - e) The filing of a Certificate of Dissolution by the corporate member.
 - f) The complete liquidation of an estate's interest in the LLC.
 - g) The expulsion of the member with the majority consent of the remaining membership.
 - h) The expiration of the term specified in Article I, section 6.

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2. **OPTION TO PURCHASE INTEREST.** In the event of dissociation of a Member, the Company shall have the right to purchase the former Member's interest at current fair market value.

ARTICLE VIII: DISPOSITION OF MEMBERSHIP INTERESTS

1. PROHIBITIONS.

- a) No membership interest, be it a sale, assignment, exchange, transfer, mortgage, pledge or grant, shall be disposed of if the disposition would result in the dissolution of the Company without full compliance with all appropriate state and federal laws.
- b) No member may in any way alienate all or part of his membership interest in the Company be it through assignment, conveyance, encumbrance or sale, without the prior written consent of the majority of the remaining members. Such consent may be given, withheld or delayed as the remaining members see fit.

2. **PERMISSIONS.** A Member may assign his membership interest in the Company subject to the provisions in this article. The assignment of membership interest does not in itself entitle the assignee to participate in the management of the Company nor is the assignee entitled to become a member of the Company. The assignee is not a substitute member but only an assignee of membership interest and as such, is entitled to receive the income and distributions the assigning member would have otherwise received.

3. **SUBSTITUTE MEMBERSHIP.** Only upon the unanimous consent of the remaining members may an assignee of membership interest become a substitute member and be entitled to all rights associated with the assignor. Upon such admission, the substitute member is subject to all restrictions and liabilities of a Member.

ARTICLE IX: MEETINGS

1. **VOTING.** All members shall have the right to vote on all of the following:

- a) The dissolution of the Company.
- b) The merger of the Company.
- c) Any transaction involving any potential conflict of interest.

d) An amendment to the Articles of Organization or to the Operating Agreement.

e) The transfer or disposition of all Company assets outside the ordinary course of business.

2. REQUIRED VOTE. Unless a greater vote is required by statute or the Articles of Organization, an affirmative vote of the majority of the membership shall be required.

3. MEETINGS.

a) The manager(s) shall hold an annual meeting at a time and place of their choosing. *waived.*

b) Special meetings of the membership may be called at any time by the manager(s) or by at least ten (10%) of the membership interest of all members. Written notice of such meeting must be provided at least sixty (60) business days prior and not later than ten (10) days before the date of the meeting. A member may elect to participate in any meeting via telephone.

4. CONSENT. In the absence of an annual or special meeting and in the absence of a vote, any action required to be taken may be permitted with the written consent of the members having not less than the minimum number of votes required to authorize such action at a meeting.

ARTICLE X: DISSOLUTION AND TERMINATION

In the event a dissolution event occurs the remaining membership shall have the option to elect to continue the company as defined by Article 1, section 6.

1. MERGER. In the event the election to continue the company following a dissolution event is not obtained, a majority vote of the remaining members may elect to reconstitute the Company through merger with and into another Limited Liability Company pursuant to applicable state law.

2. WINDING UP. If the members do not elect to continue the Company or reconstitute it, the Manager or other person selected by a majority vote of the membership shall wind up the Company.

3. FINAL DISTRIBUTIONS. After all Company assets have been liquidated and all Company debts have been paid, the proceeds of such liquidation shall be distributed to members in accordance

with their capital account balance. Liquidation proceeds shall be paid within 30 days of the end of the Company's taxable year or, if later, within 30 days after the date of liquidation.

4. DISSOLUTION. Upon completion of the winding up period, the Manager or other person selected shall file with the Secretary of State the Certificate of Dissolution or its equivalent and any other appropriate documents as required by law.

IN WITNESS WHEREOF, the parties hereto make and execute this Operating Agreement on the dates set below their names, to be effective on the date first above written.

Signed and Agreed this 26 day of April 2002 (year).

By

Manager:

Mike J. Doe

Member:

X John Doe

Member:

X Bob King

Member:

Paul King

Member:

James P. Welbourne

Dawn Blake
Robert Klein

with their capital account balance. Liquidation proceeds shall be paid within 30 days of the end of the Company's taxable year or, if later, within 30 days after the date of liquidation.

4. DISSOLUTION. Upon completion of the winding up period, the Manager - other person selected shall file with the Secretary of State the Certificate of Dissolution or its equivalent and any other appropriate documents as required by law.

IN WITNESS WHEREOF, the parties hereto make and execute this Operating Agreement on the dates set below their names, to be effective on the date first above written.

Signed and Agreed this 16 day of April, 2002 (year).

By

Manager: N/A

Member: [Signature]

Member: X [Signature]

Member: [Signature]

Member: [Signature]

Member: [Signature]

[Signature]

[Signature]

Question
Answer #13 (A)

#5




Carillon
Investments, Inc.

To: Michael Blake
Agency #45

Date: November 15, 2002

From:


Linda Shumard, Ext. 5263
Securities Licensing Coordinator

Subject: OBA Questionnaire

Attached is a copy of your Outside Business Activity Questionnaire which Bernie has approved. Please keep this for your file.

P.O. Box 40409

1876 Waycross Road

Cincinnati, Ohio 45240-0409

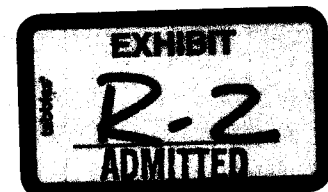
513.595.2800

1.800.522.1840

Fax 513.595.2747

carilloninvest.com

CUSTOMIZED FINANCIAL SOLUTIONS — PERSON BY PERSON



Attn: Bernard Breton

1876 Waycross Rd.
Cincinnati, OH 45240

Outside Business Activity Questionnaire

Michael J. Blake
Registered Representative Name

00076255
Rep Number

45
Agency Number

1. Name of Business Activity (A separate OBA Questionnaire must be completed for each activity):

Longest Drive LLC

2. Address of Business Activity: 9900 N. 52nd Street

Paradise Valley, AZ 85253

3. Please describe the outside business activity (be specific): Investment in Commercial
Real estate development. Private investment.

4. Are you updating or modifying information about an outside business activity previously disclosed to Carillon?

☒ YES
☐ NO

5. Structure of Business Organization (select one)

☐ Corporation
☒ Sole Proprietorship

☐ Partnership

☒ Other LLC

If Corporation, is it a:

If Corporation, are the shares publicly traded?

If Sole Proprietorship, who is the owner?

If Partnership, please indicate:

Are you a General Partner, Limited Partner, Both or Neither?

☐ "C" Corp

☐ YES

☐ "S" Corp

☐ NO

☐ General Partnership

☐ Limited Partnership

6. Do you have a financial interest in this business activity?

☒ YES ☐ NO

Percentage of your financial interest in the business: 20 %

7. What is the source of initial and ongoing capital, if any, of this business? (Check all that apply)

☒ Your personal assets

☐ Bank Loans

☐ Client Loans(s)

☐ Public stock offering

☐ Private stock offering

☐ Promissory Notes(s)

☐ Public bond offering

☐ Private bond offering

☐ Other

8. Describe the duties and authority of your position (be specific)

I am a member
of this LLC only

9. Do you have custody or control over the funds or property of others in connection with your involvement in this activity (e.g. trustee powers, power-of-attorney (POA), executor, check writing authority, treasurer)?

☒ YES ☐ NO

When we choose a Real estate investment, members write a
check to Longest Drive LLC and then I write a check for the
total amount.

10. How are you compensated? (Check all that apply)

☐ Salary
☐ Hourly

☐ Commissions
☐ Rights/Stock Options

☐ Fees

☒ Other: No Compensation

11. What percentage of your time do you spend on this outside business activity? 0 %

12. What is your estimated annual income from this business activity? \$ 0

13. How many employees does this business have? 0

14. Are any of the employees, co-owners, partners or investors in this business also Carillon registered representatives?
☐ YES ☒ NO

If YES, please list their names:

15. Are any of the employees, co-owners, partners or investors in this business also clients of yours, Carillon and/or Union Central Life in any respect?
☒ YES ☐ NO

If YES, please list their names:

Jim Wellbourn
Deirdre Purdick

Equitable client + owned for 25 years
Equitable client, owned for 15 years

16. The undersigned Registered Representative certifies that the foregoing is true and correct.

Michael J. Sloke
Registered Representative Name

Michael J. Sloke
Registered Representative Signature

10-21-02
Date

* "Outside Business Activity" is hereby defined as any outside activity with any organization that is outside the scope of Carillon's business, regardless of the receipt of any compensation (e.g. all for-profit and non-profit organizations, associations, clubs, real estate activities, all positions involving potential custody or control of assets - trustees, POAs, Executors, Treasurers, Directors, CPAs, Attorneys or any other fiduciary capacity).

FOR CARILLON COMPLIANCE DEPARTMENT USE ONLY:

☒ Approved

☐ Disapproved

☒ Amendment Required

Deirdre A. Smith
Compliance Principal

11-1-02
Date

NOTES: _____

Business Activity

Subject: Outside Business Activity

Date: Wed, 16 Oct 2002 15:38:32 -0400

From: "BERNARD A. BRETON" <bbreton@carilloninvest.com>

To: michael.blake@axa-advisors.com

Michael,

Please print and complete the attached Outside Business Activity document regarding your activity with Longest Drive, LLC.

I will then proceed to review and approve if I have no other questions regarding it.

Thank you.

Bernie

Bernard A. Breton
VP & Chief Compliance Officer
Carillon Investments, Inc.
1875 Waycross Rd.
Cincinnati, OH 45240-0409

Tel: 800-999-1840, ext. 2682
313-595-2682
Fax: 313-595-2747

bbreton@carilloninvest.com

 OBA Questionnaire.doc

Name: OBA Questionnaire.doc

Type: Microsoft Word Document (application/msword)

Encoding: base64

Description: Word for Windows 97

Download Status: Not downloaded with message

Handwritten notes:
Helly
Fax to
Bernie
MD
Done 10/21 PM

Attn: Bernard Breton

1876 Waycross Rd.
Cincinnati, OH 45240

Outside Business Activity Questionnaire

Michael J. Tzlake
Registered Representative Name

00076255
Rep Number

45
Agency Number

1. Name of Business Activity (A separate OBA Questionnaire must be completed for each activity):

Longest Drive LLC

2. Address of Business Activity:

9900 N. 52nd Street

Paradise Valley, AZ 85253

3. Please describe the outside business activity (be specific)

Investment in commercial
real estate development. Private investment.

4. Are you updating or modifying information about an outside business activity previously disclosed to Carillon?

☒ YES
☐ NO

5. Structure of Business Organization (select one)

☐ Corporation
☐ Sole Proprietorship

☐ Partnership

☒ Other LLC

If Corporation, is it a:

☐ "C" Corp

☐ "S" Corp

If Corporation, are the shares publicly traded:

☐ YES

☐ NO

If Sole Proprietorship, who is the owner:

If Partnership, please indicate:

☐ General Partnership

☐ Limited Partnership

Are you a General Partner, Limited Partner, Both or Neither?

6. Do you have a financial interest in this business activity?

☒ YES ☐ NO

Percentage of your financial interest in the business: 20 %

7. What is the source of initial and ongoing capital, if any, of this business? (Check all that apply)

☒ Your personal assets

☐ Bank Loan(s)

☐ Client Loan(s)

☐ Public stock offering

☐ Private stock offering

☐ Promissory Note(s)

☐ Public bond offering

☐ Private bond offering

☐ Other

8. Describe the duties and authority of your position (be specific)

I am a member
of this LLC only

9. Do you have custody or control over the funds or property of others in connection with your involvement in this activity (e.g. trustee powers, power-of-attorney (POA), executor, check writing authority, treasurer)?

☒ YES ☐ NO

When we choose a real estate investment, members write a
check to Longest Drive LLC and then I write a check for the
total amount.

10. How are you compensated? (Check all that apply)

☐ Salary
☐ Hourly

☐ Commissions
☐ Rights/Stock Options

☐ Fees

☒ Other

NO Compensation

11. What percentage of your time do you spend on this outside business activity? 0 %

12. What is your estimated annual income from this business activity? \$ 0

13. How many employees does this business have? 0

14. Are any of the employees, co-owners, partners or investors in this business also Carillon registered representatives?
☐ YES ☒ NO

If YES, please list their names:

15. Are any of the employees, co-owners, partners or investors in this business also clients of yours, Carillon and/or Union Central Life in any respect?
☒ YES ☐ NO

If YES, please list their names:

Jim Welbourn

David Rudlick

Equitable Client + and he 28 years
Equitable Client, friend for 15 years

16. The undersigned Registered Representative certifies that the foregoing is true and correct.

Michael J. Blake
Registered Representative Name

Michael J. Blake
Registered Representative Signature

10-21-02
Date

* "Outside Business Activity" is hereby defined as any outside activity with any organization that is outside the scope of Carillon's business, regardless of the receipt of any compensation (e.g. all for-profit and non-profit organizations, associations, clubs, real estate activities, all positions involving potential custody or control of assets - trustees, POAs, Executors, Treasurers, Directors, CPAs, Attorneys or any other fiduciary capacity).

FOR CARILLON COMPLIANCE DEPARTMENT USE ONLY:

☐ Approved

☐ Disapproved

☐ U4 Amendment Required

Compliance Principal _____

Date _____

NOTES: _____

October 16, 2002

Carillon Investments
Attn: Amy Starkey

Re: Longest Drive, LLC

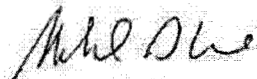
As a private investor in commercial real estate transactions, four friends and myself formed an Arizona LLC with the sole intent to invest in commercial real estate projects. Longest Drive, LLC purchases membership interests in office condos as members in the LLC, set up for each project by the developer. I receive no fees, compensation or additional benefit other than my proportional percentage of profit if any is generated.

Each member individually does their due diligence and invests only those monies they individually are willing to invest in each project.

Only if we are able to meet the investment minimum collectively, does Longest Drive, LLC make an investment.

I have no involvement in the Real Estate Company or project in which we invest.

I am a member in Longest Drive, LLC for the sole purpose of a private investment.



Michael J. Blake


4/1/09

To whom it may concern,

Re: Longest Drive LLC
Grace Communities/Grace Capital LLC

Longest Drive LLC has been an investor only in numerous commercial real estate projects that we have built or attempted to build. Longest Drive LLC has been treated exactly the same as all other Grace investors. No one from Longest Drive LLC has been employed in any capacity with Grace and no one from Longest Drive LLC has ever been paid commissions for any services or fees.

Sincerely,


Donald Zeleznak
Manager





Via Facsimile Transmission and US First Class Mail
(480) 383-1602

November 21, 2012

Roger W. Hall, Esq.
Buchalter Nemer
16435 North Scottsdale Road, Suite 440
Scottsdale, Arizona 85254-1754

Re: Michael Blake, Examination Number 20100217105

Dear Mr. Hall:

On November 21, 2012, the staff advised you that it made a preliminary determination to recommend that disciplinary action be brought against your client, Michael Blake. During that conversation, the staff also advised you of the nature of the potential violations. Specifically, the staff made a preliminary determination that Mr. Blake engaged in undisclosed private securities transactions between approximately February 2006 and March 2007 totaling approximately \$3.2 million in the following Grace Community Properties: Burr Ridge, Romeoville and Deer Park, in violation of NASD Conduct Rules 3040 and 2110. In addition, Mr. Blake violated NASD Conduct Rules 3030 and 2110 by engaging in an undisclosed outside business activity. Finally, Mr. Blake violated FINRA Rule 2010 and NASD Rule 2110 by misleading his firm concerning his private securities transactions.

Please treat this letter as written notification that your client is the subject of an investigation for purposes of triggering an obligation on the part of your client to update his Form U4 (Uniform Application for Securities Industry Registration or Transfer) as he is currently registered.

Please also advise you that in the event your client wishes to file a "Wells" submission indicating why an action should not be brought against him for some or all of the proposed alleged violations, it is due by December 14th and must not exceed 35 pages. Wells submissions are *not* treated as settlement documents and any statements contained therein may be used against your client at, among other things, a FINRA disciplinary proceeding.

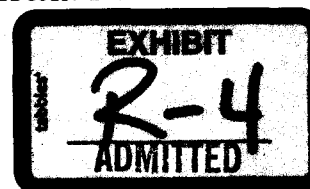
If you have any questions, please call me at (303) 446-3111.

Very truly yours,


Helen G. Barnhill
Senior Regional Counsel

cc: Director of Compliance
Ameritas Investment Corporation
Investor protection. Market integrity.

District 3A
4600 S. Syracuse St., Suite 1400
Denver, CO 80237-2719
t 303 446 3100
f 303 620 9450
www.finra.org





Financial Industry Regulatory Authority

FACSIMILE

TO Roger W. He. Ol. Esq.

COMPANY

FAX

480 383-1602

TEL

DATE

11/21/12

NUMBER OF PAGES INCLUDING COVER

2

FROM

C. Lopez

FAX

303-620-9450

TEL

303-446-3100

This fax transmittal is strictly confidential and is intended solely for the person or organization to whom it is addressed.

BuchalterNemer
A Professional Law Corporation

16435 NORTH SCOTTSDALE ROAD, SUITE 440 SCOTTSDALE, ARIZONA 85254-1754
TELEPHONE (480) 383-1800 / FAX (480) 824-9400

Direct Dial Number: (480) 383-1845
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E-Mail Address: rhall@buchalter.com

December 28, 2012

Via FedEx and E-Mail

Helen G. Barnhill, Esq.
Senior Regional Counsel
FINRA
4600 South Syracuse Street, Suite 1400
Denver, CO 80237

Re: Michael Blake, Examination No. 20100217105

Dear Ms. Barnhill:

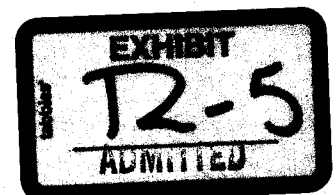
This will constitute Mr. Blake's response to the "Wells" notification sent on November 21, 2012.

That letter indicates that FINRA staff has made a preliminary determination that Mr. Blake "engaged in undisclosed private securities transactions between approximately February 2012 and March 2017 totaling approximately \$3.2 million"

There are several inaccurate statements in that sentence.

First, Mr. Blake had no reason to believe that the real-estate investments in question were securities.

For each of those investments, Mr. Blake's company, Longest Drive, LLC was provided with a Subscription and Counterpart Signature Page for Membership Interests. Those documents were prepared by the individual investment entities, and countersigned by Mr. Blake on behalf of Longest Drive. Each and every one of those subscription agreements contains language stating that the investment entities "have informed me [Longest Drive] that the Interest will not [sic] be registered pursuant to the Securities Act of 1933, as amended (the 'Act'), or under Arizona or any other state's securities laws based upon your belief that the Interests are not 'securities' as defined under the Act, or even if so defined, the sale to me [Longest Drive] qualifies for an exemption from the registration requirements of said federal and state securities laws." Copies of each of those subscription agreement letters are attached/enclosed for your convenience. (Copies of the Romeoville and Deer Park subscription agreements were previously provided to FINRA as part of my Sept. 7, 2010 letter to Martha Wiseman of your office. A copy of the Burr



BuchalterNemer

Helen G. Barnhill, Esq.
December 28, 2012
Page 2

Ridge subscription agreement was given to Ameritas Investment Corp. for inclusion in its June 4, 2010 letter to Ms. Wiseman, and another copy was enclosed with my Nov. 12, 2012 letter to Ms. Susan Byford of your office.)

Since each of the investment entities had informed Mr. Blake, in writing, that the interests being sold did *not* constitute securities, he had no reason to believe that they were securities. Accordingly, he did not treat them as such.

As you are likely already aware, Longest Drive was formed simply to be an investment vehicle for individuals who wished to invest in a particular real-estate development but who might not have been able to invest the required amount otherwise. Instead of having each person invest in, for instance, Burr Ridge on his or her own, the person would instead write a check to Longest Drive, which would then pool all of the checks intended for investment in Burr Ridge and write a single check to Burr Ridge. As Burr Ridge paid out profits, each individual investor would receive an amount commensurate with his or her pro rata percentage of Longest Drive's total investment in Burr Ridge. And Mr. Blake always made clear to the investors that Longest Drive was completely separate from either Carillon or Ameritas. Finally, each investor decided for him or herself whether to invest. Mr. Blake had no control over the money being provided to Longest Drive.

Longest Drive was formed by Mr. Blake and some of his friends. And since Longest Drive was only investing on behalf of friends and family of its members, it did not charge any of those people commissions, handling fees, or in any way make a profit. Mr. Blake handled the investments, disbursements, and K-1s on his own, for no compensation whatsoever. Finally, Longest Drive is no longer making investments, and exists only to pay investors if the current investments should begin to turn a profit.

In further support of Mr. Blake's position that neither he nor Longest Drive received any compensation, attached/enclosed is a letter from Donald Zeleznak, the managing member of Grace Communities/Grace Capital LLC. The letter states that Longest Drive never received any commissions or compensation from Grace, and was not given any special treatment by Grace. This letter was previously provided to FINRA in my February 14, 2012 letter to Susan Byford of your office as a follow-up to Mr. Blake's January 19, 2012 in-person examination.

Second, the Wells letter states that Longest Drive's transactions were "undisclosed." That is also incorrect. As Mr. Blake has repeatedly stated, he always disclosed Longest Drive's activities to his broker-dealer. First to Carillon Investments, Inc., and after Carillon was acquired by Ameritas Investments Corp., he disclosed Longest Drive's activities to Ameritas.

Attached/enclosed is Mr. Blake's Outside Business Activity Questionnaire from fall 2002, in which Longest Drive's activities are described in detail. After reviewing that detailed description of Longest Drive's activities, Carillon approved it.

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Helen G. Barnhill, Esq.

December 28, 2012

Page 3

As set forth Mr. Blake's explanatory letter to Carillon, he received "no fees, compensation or additional benefit for handling investment through Longest Drive other than [his] proportional percentage of profit, if any is generated." In other words, the only benefit that Mr. Blake would receive was the pro rata return on investment that any other investor would receive, since he was an investor himself. Neither he nor Longest Drive ever received any form of compensation for facilitating the investments in the various real-estate projects.

And while the number of Longest Drive's investors grew as the real-estate projects continued to turn profits, the nature and manner of what Longest Drive was doing never changed, and neither Mr. Blake nor Longest Drive ever received any compensation.

Mr. Blake continued to disclose Longest Drive's activities as an outside business activity for every year after that, both to Carillon and to Ameritas. Ameritas has its employees submit their OBAs online and Mr. Blake does not have access to those electronic records, but you can undoubtedly receive them (if you have not already) from Ameritas. Notably, neither Carillon nor Ameritas ever raised red flags about Longest Drive, ever advised Mr. Blake that he was dealing in securities, or ever told him to cease that activity. If either of those entities had been concerned that one of its top-selling employees was improperly selling securities, one or both would have doubtless informed Mr. Blake of that fact, if for no other reason than to protect themselves. Since neither Carillon nor Ameritas ever advised him to stop what he was doing, Mr. Blake therefore had no reason to suspect that he was doing anything which could be considered improper.

Moreover, each year from 2003 to 2012 first Carillon and then Ameritas sent auditors to Mr. Blake's office to physically audit his files and activities. Not once over what was nearly a decade did a single auditor ask for information concerning Longest Drive or any of its projects.

Third, the Wells letter states that Mr. Blake engaged in transactions "totaling approximately \$3.2 million . . ." That is also incorrect. Mr. Blake did not bring all of the investors into Longest Drive. Indeed, he only brought eight investors in, and their investments totaled approximately \$1.7 million dollars. All of Longest Drive's other investors were brought in by other Longest Drive members. The investors that Mr. Blake brought in, and the amount of their investment, are as follows:

•	Steven Bernstein	\$175,000
•	Roger Wooley	\$340,000
•	Pam Pont	\$ 50,000
•	Dan and Kathy Hinsley	\$690,000
•	Larry Hampton	\$100,000
•	Jack Saunders	\$200,000
•	Doug and Kira Pippert	\$100,000
•	Dan Gallagher	\$ 50,000

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Helen G. Barnhill, Esq.
December 28, 2012
Page 4

As you can see, those investments only total \$1,705,000, not the \$3,200,000 stated in the Wells letter.

As to the nature of those investors, Mr. Bernstein is a friend from Mr. Blake's neighborhood. Mr. Wooley has been friends with Mr. Blake for more than thirty years, and Ms. Pont for more than twelve years. Mr. Hinsley is one of Mr. Blake's golfing buddies, and Mr. Hampton is friends with Mr. Blake through their church. Mr. Saunders is a friend, and Mr. Pippert was a friend at the time. And even though the Pipperts filed a complaint against Mr. Blake, he still manages their accounts. Finally, Mr. Gallagher has been friends with Mr. Blake for nearly a decade.

In addition to being friends, some of those individuals were also clients of Mr. Blake, specifically, Mr. Wooley, Ms. Pont, the Hinsleys, the Pipperts, and Mr. Gallagher. And Mr. Saunders became a client after he invested through Longest Drive.

Regarding the investments themselves, the prospectus for each of the projects states, in large lettering on the page immediately following the table of contents, that: "[t]his is a highly speculative real estate development project and should only be made by persons who could afford to lose their entire investment." (Emphasis added.)

This can be seen in the attached/enclosed prospectuses for Burr Ridge and Romeoville. These documents were previously provided to Ameritas for submission to FINRA with Ameritas's June 4, 2010 letter to Ms. Wiseman. (Mr. Blake has been unable to locate the Deer Park prospectus, but is confident that the Risk Analysis for that project is identical to the other two.)

It is also important to note that not a single Longest Drive investor has ever filed a complaint against Mr. Blake as a result of Longest Drive's investments. This includes the Pippert complaint, which did not mention Longest Drive at all.

*

*

*

Regarding Mr. Blake's alleged violations of NASD and FINRA conduct rules, he strongly denies any such violations. The Wells letter lists three NASD rules and one FINRA rule that he allegedly violated. But one of the NASD rules, 3030, has been "retired" and is therefore no longer in force. And another, 2110, address "front running," and thus has no application to this case.

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Helen G. Barnhill, Esq.

December 28, 2012

Page 5

To the extent that FINRA intended to allege violations of different rules, whether under NASD or FINRA, Mr. Blake does not consider the current Wells letter sufficient notice of any such allegations, and reserves the right to object to any further investigation under rules not currently listed. Without waiving that objection, however, Mr. Blake will nevertheless address the rules that are properly listed, as well as the rule that superseded NASD Rule 3030.

The Wells letter states that Mr. Blake's involvement in the Burr Ridge, Romeoville, and Deer Park investments constituted violations of "NASD Conduct Rules 3040 and 2110."

Concerning NASD Rule 3040, it states that: "No person associates with a member shall participate in any manner in a private securities transaction except in accordance with the requirements of this Rule." NASD Rule 3040(a).

As explained above, though, for each of the real-estate transactions in question Mr. Blake was informed, in writing, by the investment entity that those investment interests did *not* constitute securities. Since according the written notice that Mr. Blake received there were no "private securities transactions," there was no violation of the Rule.

Rule 3040 goes on to state that "[p]rior to participating in a private securities transaction, an associated person shall provide written notice to the member with which he is associated describing in detail the proposed transaction and that person's proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction; provided however that, in the case of a series of related transactions in which no selling compensation has or will be received, an associated person may provide a single written notice." NASD Rule 3040(b).

As also explained above, Mr. Blake did in fact provide, first to Carillon and then to Ameritas, detailed written notice describing Longest Drive's proposed transactions, his role, and the fact that he would not be compensated. And again, neither Carillon nor Ameritas ever raised any red flags, ever told Mr. Blake that they believed he was selling securities, or ever told him to stop. And even after in-person audits of his files, every year, neither of the broker-dealers ever inquired about Longest Drive or its projects. Thus, even if the transactions at issue *were* securities, Mr. Blake complied with the requirements of NASD Rule 3040(b) by giving his broker-dealers written notice that explained the transactions, his role, and the fact that he received no compensation.

In spite of this evidence that there has been no violation, if FINRA nevertheless determines that a violation of Rule 3040 has occurred, Mr. Blake should be given the minimum sanction, because he had justifiable reason to believe that the transactions were not securities; he fully disclosed the transactions and his involvement in them to his broker-dealers; those broker-dealers raised no objections; and Mr. Blake received no compensation.

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Helen G. Barnhill, Esq.

December 28, 2012

Page 6

Concerning NASD Rule 2110, sub-rule 2110-1 is "reserved," and contains no actual text. There is no sub-rule 2110-2, and sub-rule 2110-3 concerns "front running" and is therefore inapplicable to this case. As stated above, it is Mr. Blake's position that whatever NASD Rule was *meant* to be referenced instead of Rule 2110, he has not been provided proper Wells notice of that Rule or its alleged violation.

The Wells letter further claims that "Mr. Blake violated NASD Conduct Rules 3030 and 2110 by engaging in an undisclosed business activity."

Regarding NASD Rule 3030, that Rule has been "retired," and is no longer applicable. To the extent that Mr. Blake is being charged with violating the Rule that superseded NASD Rule 3030 (FINRA Rule 3270), his position is that proper Wells notice has not been given as to any such violation.

Without waiting that objection, however, Mr. Blake asserts that he did not violate the superseding rule, FINRA Rule 3270, either.

That Rule states:

No registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member.

As detailed above, Mr. Blake was neither compensated, nor had an expectation of compensation, from his activities with Longest Drive. As such, there was no violation of FINRA Rule 3270, the Rule that superseded NASD Rule 3030.

As to NASD Rule 2110, as set forth above, that rule address front running, and is not applicable in this case.

And regarding the allegation that Mr. Blake engaged in "undisclosed outside business activity," that is not borne out by the evidence. Attached/enclosed and previously discussed is the detailed description that Mr. Blake provided to Carillon, Ameritas's predecessor, concerning Longest Drive. After reviewing that information, Carillon approved Mr. Blake's activities with Longest Drive. As Carillon's successor, Ameritas not only had access to and knowledge of Mr. Blake's disclosure, he listed his Longest Drive involvement as an outside business activity each year he was with Ameritas as well. Each broker-dealer also performed in-person audits of Mr. Blake's files every year and never questioned him about any of Longest Drive's activities.

BuchalterNemer

Helen G. Barnhill, Esq.

December 28, 2012

Page 7

And as stated previously, while the number of Longest Drive's investors grew over time, the nature of those investments and the nature of Mr. Blake's involvement did not change. Nor did he ever receive any compensation for that involvement. Thus, there was no "undisclosed outside business activity."

Concerning the final rule that Mr. Blake is alleged to have violated, FINRA Rule 2010, it states that: "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

Since Mr. Blake did not violate any other rules, though, there is no basis to determine that he violated FINRA Rule 2010 either. Because without other violations, there are no grounds upon which to conclude that Mr. Blake did anything but observe "high standards of commercial honor and just and equitable principles of trade." Moreover, and as explained repeatedly above, Mr. Blake did not receive compensation for his activities on behalf of Longest Drive; all investors were fully apprised of the risk; he fully disclosed his involvement in and lack of compensation from Longest Drive to his broker-dealers and his broker dealers never raised any objections.

*

*

*

Regarding discipline, Mr. Blake's position is that he should not be subject to any, and if he is, it should be minimal. The very first principle of the FINRA Sanction Guidelines is that "sanctions are remedial in nature and should be designed to deter future misconduct and to improve overall business standards in the securities industries." FINRA Sanction Guidelines, General Principles Applicable to All Sanction Determinations ("General Principles"), section 1.

Here, Mr. Blake acted on written information that the investments in questions were not securities. Moreover, he disclosed his actions to each of his broker-dealers on an annual basis. Neither of those broker-dealers made any objection to his actions, nor did they advise him that he was dealing in securities—even after performing in-person audits of his files every single year. Nor did he ever receive any compensation. Based upon those written assurances, his broker-dealers' lack of warning or objection, and the fact that he received no compensation, Mr. Blake did not believe that he was engaging in any improper activity. And it would not serve the Sanction Guidelines' mandate that sanctions be remedial and designed to deter future misconduct if Mr. Blake were disciplined for activity he had no reason to believe was wrong.

The Sanction Guidelines also state that "[d]isciplinary sanctions should be more severe for recidivists."

Until his involvement with Longest Drive and the fallout from that venture, Mr. Blake had no history of sanctions or even investigations with FINRA. And as the Sanction Guidelines indicate, severe discipline should be reserved for recidivists. Mr. Blake, however, does not fall into that category. As a result, if any sanction is issued against him it should not be severe.

Further, if FINRA determines that sanctions are appropriate, the alleged violations should be "batched," rather than looked at individually, since all arose from the same activity and through the same entity, Longest Drive.

The Sanction Guidelines advise that violations may be batched where "the violative conduct was unintentional or negligent . . . or the violations resulted from a single systemic problem or cause that has been corrected." Sanction Guidelines, General Principles, section 4. As previously stated, based upon written assurances that he had received and his broker-dealers' lack of notification to the contrary, Mr. Blake did not believe he was engaged in any wrongdoing. As a result, "the violative conduct was unintentional."

Moreover, all of the alleged violations arose from "a single systemic problem or cause that has been corrected." The transactions in which Longest Drive engaged have not changed since fall 2002 when Mr. Blake first disclosed his activities to Carillion. Those transactions were therefore from "a single systemic problem or cause." And since Longest Drive is no longer making investments, that cause "has been corrected." As such, the Longest Drive transactions should be batched and treated as a single violation.

The Sanction Guide also indicates that "[a]djudicators should consider a respondent's ill-gotten gain in determining an appropriate remedy." Sanction Guidelines, General Principles, section 6.

Here, Mr. Blake did not receive *any* gain. He was not compensated for anything he did through or for Longest Drive. Any gain or loss he realized was the same, on a pro rate basis, as that of any other investor because of the fact that he was an investor in each of the transactions as well. Since a respondent's "ill-gotten gain" must be considered in the determination of a sanction, Mr. Blake's *lack of financial gain* should certainly be a factor in assessing any sanction as well. See, Sanction Guidelines, General Principles, section 6.

Regarding the specific rules that Mr. Blake is alleged to have violated, only one of them, NASD Rule 3040, is specifically mentioned in the Sanction Guidelines. And most of the considerations listed in that Rule do not apply to Mr. Blake's situation. Mr. Blake only sold to nine customers; the "products" Longest Drive sold have not been found to involve a violation of federal or state securities laws, nor of federal or state SRO rules; neither Mr. Blake nor Longest Drive had a proprietary or beneficial interest in the sales they conducted; Mr. Blake never attempted to create the impression that his employer was involved in the activities of Longest Drive; the sales conducted through Longest Drive did not cause injury to the investing public because each investor was provided a prospectus detailing the risk, made the investment decision on his or her own, controlled the amount of his or her investment—and never filed any complaints; Mr. Blake provided his employer firm with repeated written documentation of Longest Drive's activities; Mr. Blake was never instructed by either of his firms *not* to engage in the Longest Drive activities; Mr. Blake did not recruit other registered individuals to sell

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Helen G. Barnhill, Esq.
December 28, 2012
Page 9

interests in the investment properties; and Mr. Blake never misled his broker-dealers as to his involvement in Longest Drive, in fact the opposite is true, he advised his broker-dealer that Longest Drive was an outside business activity each and every year. See Sanction Guidelines, Selling Away (Private Securities Transaction), FINRA Rule 2010 and NASD Rule 3040.

And while Longest Drive admittedly worked with certain of Mr. Blake's broker-dealer clients, many of those individuals were also longtime friends of Mr. Blake. So there is certainly some ambiguity as to whether he was acting in his capacity as a longtime friend or in his capacity as a financial advisor when he told those individuals about the projects Longest Drive was investing in. And given that Mr. Blake never received any compensation, the facts point more in the direction of "friend" than "financial advisor."

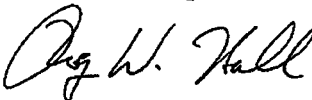
Mr. Blake was told, in writing, that the projects Longest Drive was investing in did not constitute securities. He gave both of his broker-dealers, first Carillion and then Ameritas, a detailed description of his involvement in Longest Drive. Neither of those broker-dealers ever raised any red flags, ever told him that he was dealing in securities, or ever told him to stop. Mr. Blake's files were physically audited every year by his broker-dealers and not once did an auditor ever ask about Longest Drive. Mr. Blake had no control over the funds that a friend or family member provided to Longest Drive; each of those friends or family members made his or her own investment decision, and each one was presented with a prospectus plainly stating the risk involved. Finally, and perhaps most importantly, Mr. Blake received not a dime of compensation for his involvement in Longest Drive.

The foregoing facts weigh very strongly in favor of not proceeding with any type of disciplinary action against Mr. Blake. But if discipline is imposed, it should be minimal given the circumstances.

Both I and Mr. Blake are available to answer additional questions should you have any.

Sincerely,

BUCHALTER NEMER
A Professional Corporation

By 
Roger W. Hall

RWH:jkg
Enclosures

cc: Mr. Michael Blake (*via e-mail only*)
Sara Andres, Esq. (*via e-mail only*)

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
NOTICE OF COMPLAINT**

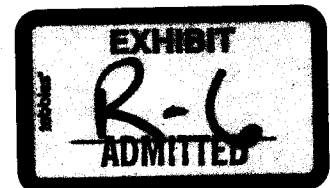
Disciplinary Proceeding No. 20100217105-01
Date: March 21, 2013

TO: Michael J. Blake
c/o Roger W. Hall, Esq.
BuchalterNemer
16435 North Scottsdale Road, Suite 440
Scottsdale, AZ 85254-1754

FROM: FINRA District No. 3 - Denver
Department of Enforcement
4600 S. Syracuse Street, Suite 1400
Denver, CO 80237

You are notified that a Complaint has been issued by the Department of Enforcement, a copy of which is attached, alleging that you have violated certain FINRA Rules, NASD Rules, NYSE Rules, Municipal Securities Rulemaking Board Rules and/or provisions of the federal securities laws.

All individual Respondents named in this proceeding are reminded of the requirement to update immediately their Uniform Application for Securities Industry Registration or Transfer (Form U4) upon receipt of this Notice of Complaint to reflect that they have been named a Respondent in this Complaint. Any firm named in this proceeding is reminded of the requirement to update immediately its Uniform Application for Broker-Dealer Registration (Form BD) upon receipt of this Notice of Complaint to reflect that it has been named a Respondent in this Complaint. In addition, you are required during the pendency of this proceeding to notify immediately this office and the Office of Hearing Officers, in writing, of any change in your address.



ANSWER: Pursuant to FINRA Rule 9215 of FINRA's Code of Procedure, you are required within **28 days** after service of this Complaint upon you, by no later than **April 17, 2013**, to answer this Complaint, in the manner and form described by FINRA Rule 9215, and to serve your Answer to the Complaint on all other parties pursuant to FINRA Rule 9133. Service of your Answer to the Department of Enforcement should be made to Helen Barnhill, Senior Regional Counsel, at the address referenced above. At the time of such service upon all parties, you are also required to file the signed original and three copies of your Answer with the Office of Hearing Officers pursuant to FINRA Rules 9135, 9136, and 9137. Filing of your Answer with the Office of Hearing Officers should be directed to the Office of Hearing Officers, FINRA, 1735 K Street, N.W., 2nd Floor, Washington, D.C. 20006, telephone (202) 728-8008, or you may file your Answer electronically: OHOCASEFILINGS@FINRA.ORG. Papers are deemed timely filed with the Office of Hearing Officers if received by the Office of Hearing Officers within the specified time period.

The Answer must admit, deny or state that you do not have or are unable to obtain sufficient information to admit or deny each allegation in the Complaint. Any affirmative defense must be stated in the Answer. Pursuant to FINRA Rule 9215(c), if you file a motion for a more definite statement, it must accompany your Answer.

Pursuant to FINRA Rule 9221, your Answer must specifically state whether you request a hearing on the allegations of the Complaint or whether you waive a hearing. The Office of Hearing Officers will later notify you of the hearing date and location. If you waive a hearing, a hearing may nevertheless be ordered pursuant to FINRA Rule 9221(b) or (c). If no hearing is

ordered, the Office of Hearing Officers will notify you concerning your opportunity to submit documentary evidence for consideration.

If the Complaint alleges at least one cause of action involving a violation of a statute or rule described in FINRA Rule 9120(u) relating to the quotation of securities, execution of transactions, reporting of transactions or other specified trading practice rules, you may propose that the Chief Hearing Officer select one of the panelists for your hearing from the Market Regulation Committee.

INSPECTION AND COPYING OF DOCUMENTS IN POSSESSION OF STAFF: You are hereby advised that, pursuant to FINRA Rule 9251, unless otherwise provided, no later than 21 days after the filing date of your Answer (or, if there are multiple Respondents, not later than 21 days after the filing of the last timely Answer), the Department of Enforcement shall commence making available for inspection and copying by any Respondent, certain documents prepared or obtained by the Department of Enforcement in connection with the investigation leading to the institution of these proceedings. In that regard, contact Helen Barnhill to make arrangements. Please note that a Respondent shall not be given custody of the documents or be permitted to remove them from the offices of FINRA. However, a Respondent may obtain a photocopy of any documents made available for inspection; the Respondent shall pay the cost of any such copying of documents.

OFFER OF SETTLEMENT: Pursuant to FINRA Rule 9270, you may propose a written Offer of Settlement at any time. You may obtain the required format from the above-named staff

attorney. Discussions with the staff concerning possible settlement or the submission of an Offer do not relieve you of the obligation to timely file an Answer to the charges.

PRIMARY DISTRICT COMMITTEE: The Department of Enforcement has proposed District No. 3 as the Primary District Committee for this proceeding based on the following factors: Respondent Michael J. Blake is located in District No. 3 and the alleged violations occurred in that District. You may propose the same or another District as the Primary District Committee for this proceeding, with the filing of your Answer. The Office of Hearing Officers will designate, pursuant to FINRA Rule 9232(c), the Primary District Committee.

PROPOSED HEARING LOCATION: The Department of Enforcement has proposed Phoenix, Arizona, as the appropriate location for any hearing in this proceeding. Pursuant to FINRA Rule 9221, you may propose an appropriate location for any hearing, with the filing of your Answer. The assigned Hearing Officer will designate, pursuant to FINRA Rule 9221(d), the location of any hearing.

REPRESENTATION: Pursuant to FINRA Rule 9141, any Respondent may be represented by an attorney. Alternatively, an individual may appear on his own behalf; a member of a partnership may represent the entity; and a bona fide officer of a corporation, trust or association may represent the entity.

NOTICE OF APPEARANCE: You are advised that the Department of Enforcement is represented in this matter by Helen Barnhill, Senior Regional Counsel, FINRA Department of Enforcement, 4600 S. Syracuse Street, Suite 1400, Denver, CO 80237, (303) 446-3100.

GOVERNING RULES: You are directed to FINRA Rule 9000, et seq.,

<http://finra.complinet.com>, for additional pertinent rules governing these proceedings.

David Utecky for Helen Barnhill
Helen Barnhill
Senior Regional Counsel
FINRA Department of Enforcement

Enclosure: Complaint

FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondent Michael James Blake, acting outside the course and scope of his employment with his employing member firms, participated in private securities transactions involving the investment of more than \$3.2 million by approximately twenty-eight investors in three investment contracts, without providing prior written notice to his firms of his proposed roles in the transactions. As a result of the foregoing, the Respondent violated NASD Conduct Rules 3040 and 2110.
2. On numerous forms, Respondent misled his employing member firms regarding his involvement in the foregoing private securities transactions and his participation in the outside business activity through which the transactions were effected, in violation of NASD Conduct Rule 2110 and FINRA Rule 2010.

3. Finally, Respondent failed to disclose a separate, related outside business activity to his employing member firm, in violation of NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

4. The Respondent entered the securities industry in or about December 1989 as an associated person of ELA, a FINRA member. He became registered with that firm (which had since changed its name to AX) as an Investment Company and Variable Contracts Products Representative and Principal in February 1990 and January 1996, respectively, as a General Securities Representative in June 1999 and as a General Securities Principal in December 1999.
5. On November 1, 2002, the Respondent became registered with FINRA member firm Carillon Investments, Inc. ("Carillon") in each of the foregoing capacities.

Respondent's association with Carillon ceased on or about June, 2006 when these same registrations were transferred to Ameritas Investment Corporation ("Ameritas").
6. The Respondent is currently registered with Ameritas in those same capacities.
7. Under Article V, Section 2 of FINRA's By-Laws, FINRA has jurisdiction to file this action because the Respondent is currently registered and associated with Ameritas, a FINRA member; and the Complaint charges him with misconduct committed while he was registered or associated with FINRA member firms.

FIRST CAUSE OF ACTION
Selling Away (Private Securities Transactions)
(NASD Conduct Rules 3040 and 2110)

8. The Department realleges and incorporates by reference paragraphs 1 through 7 above.
9. In or about April 2002, the Respondent formed an LLC so that he and three colleagues could pool funds to invest in commercial real estate projects.
10. In October 2002, the Respondent notified Carillon of the existence of the LLC in a letter dated October 16, 2002 and an Outside Business Activity Questionnaire ("OBA Form") which he submitted on or about October 21, 2002. In the two documents, Respondent disclosed the business as a "private investment" in commercial real estate development by him and four friends, two of whom were former clients of ELA. He further disclosed that he would not spend any time on the business, in which he had a twenty-percent interest and that he received no compensation from the business. Respondent further represented that, after the LLC selected a particular real estate project, its members would each write a check to the LLC and Respondent, who had signatory authority for the LLC's bank account, would in turn write a check to the real estate development project on behalf of the LLC. The outside business activity, as disclosed, was approved on October 16, 2002 by Carillon's Chief Compliance Officer.
11. By the summer of 2007, the LLC's size and scope had expanded beyond the several individuals who initially formed the entity, in that approximately twenty-five individuals, who were not members of the LLC, had provided funds to the LLC to make investments in real estate development projects through the LLC. None of

these individuals signed a membership agreement with the LLC, and the LLC's Operating Agreement was never amended to reflect the addition of new members.

12. Between approximately February 2006 and June 2007, the LLC invested approximately \$3,200,000 in real estate properties being developed by GC, a real estate development enterprise organized as a limited liability company. The invested funds were provided by twenty-eight investors as follows: six persons invested \$250,000 in Development 1 between August and November 2006; three persons invested \$200,000 in Development 2 in October and November 2006 and twenty-three persons invested approximately \$2,755,000 in Development 3 between February 2006 and June 2007 (collectively, the "LLC Investments."). Twelve of these investors were customers of Carillon and/or Ameritas at the time of their respective investments. The Respondent personally invested in each of these three projects.
13. Respondent participated in the sale of the LLC Investments by soliciting investors, receiving, processing and forwarding the funds that were invested, providing the investors with documentation evidencing their investments, functioning as the point of contact between the investors and GC, apprising the investors of the status of the LLC Investments and causing the preparation of Schedule K1 forms.
14. The Respondent completed Ameritas Annual Compliance Questionnaires ("Questionnaires") on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires, the Respondent answered "yes" when asked if he understood he was not permitted to commingle his funds with a client's funds and that he was not to accept a client's check made payable to him or any entity or

person associated with him for a securities transaction. Even after answering "yes" to these questions on September 18, 2006, the Respondent continued to accept checks made payable to the LLC and in October and November 2006, he commingled his funds with client's funds in the LLC's bank account.

15. Each investment of funds in the LLC was the purchase of a security in the form of an investment contract. The LLC was a common enterprise in which investor funds were pooled. The investors' returns were to be derived wholly from the efforts of the LLC and GC, the entity in which their pooled funds would be invested by the LLC.

16. Respondent effected the LLC Investments outside the regular course and scope of his employment with Carillon and Ameritas. Therefore, the transactions are private securities transactions.

17. The Respondent never advised Carillon or Ameritas orally or in writing that he was participating in the private securities transactions described above. To the contrary, as set forth below, between 2006 and 2008, he indicated each year, in annual compliance questionnaires, that he had not engaged in private securities transactions.

18. GC filed for bankruptcy in 2009. To date, none of the investors in the LLC Investments have received a return of their principal or any interest or other payments.

19. As a result of the foregoing, the Respondent participated in private securities transactions without providing to Ameritas and Carillon prior written notice in the form required by NASD Conduct Rule 3040, as required by NASD Rule 3040(b). He therefore violated NASD Conduct Rules 3040 and 2110.

SECOND CAUSE OF ACTION
(Providing False Information to Member Firm Employer and Omitting to Correct
Inaccurate Information)
(NASD Rule 2110 and FINRA Rule 2010)

20. The Department realleges and incorporates by reference paragraphs 1 through 19 above. As noted above, the Respondent completed Questionnaires on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires he falsely answered "no" when asked if he had engaged in private securities transactions.
21. The Respondent did disclose the LLC as an outside business in OBA Forms on August 31, 2003, September 8, 2004, March 14, 2005 and October 1, 2007.
22. However, the Respondent did not disclose the LLC as an outside business in OBA Forms which he completed on September 18, 2006 and July 31, 2008, inquiring into all of his outside business activities.
23. The size, scope and activity of the LLC changed significantly after Respondent's initial disclosure in 2002 that he and four friends had formed an entity to invest in commercial real estate. By 2007, the LLC had become an investment vehicle for approximately 25 other individuals to pool funds for investments in various real estate development projects and Respondent was substantially involved in this expanded business. These changes caused the initial disclosure to become inaccurate and, given the nature and extent of its activities, misleading. Respondent did not amend or update the outside business disclosure concerning the LLC at any time.
24. By providing false and incomplete information on compliance questionnaires and by failing to update and correct his outside business disclosure, as described above,

Respondent misled Ameritas. By misleading the firm, the Respondent deprived his employer of information that could have resulted in the detection of his participation in private securities transactions, notwithstanding his failure to make an affirmative disclosure in the Questionnaires.

25. By providing false and misleading information to Ameritas from September 2006 through December 14, 2008, Respondent violated NASD Conduct Rule 2110. By providing false and misleading information to Ameritas from December 15, 2008 through June 28, 2009, Respondent violated FINRA Rule 2010.

THIRD CAUSE OF ACTION

Outside Business Activities—Failure to Comply with Rule Requirements (NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010)

26. The Department realleges and incorporates by reference paragraphs 1 through 25 above.
27. Respondent caused a second limited liability company to be created and to be incorporated in Arizona on or about November 29, 2006 ("LLC II"). Respondent was the Managing Member of LLC II, owning twenty percent or more of the business. LLC II was set up so that any investments made after Development 3 would be made through that entity instead of the first LLC. Respondent closed LLC II in or about November 2010.
28. The Respondent failed to provide Ameritas with any notice at all, including written notice, of LLC II.
29. As to conduct occurring from November 29, 2006 through December 14, 2008, the Respondent's failure to provide prompt written notice of LLC II to Ameritas violated

NASD Conduct Rules 3030 and 2110. As to conduct occurring from December 15, 2008 through November 30, 2010, the Respondent's failure to provide prior written notice of LLC II to Ameritas violated NASD Conduct Rule 3030 and FINRA Rule 2010.

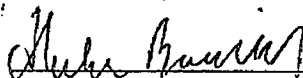
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: March 18, 2013



Helen G. Barnhill
Senior Regional Counsel
Jacqueline D. Whelan
Regional Chief Counsel
FINRA Department of Enforcement
4600 S. Syracuse St., Suite 1400
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Facsimile: 303 446-3150
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Index of Initials

ELA	The Equitable Life Assurance Society of the United States
AX	AXA Advisors, LLC
LLC	The Longest Drive LLC
GC	Grace Communities
LLC II	The Longest Drive II, LLC
Development 1	Deer Park Town Center
Development 2	Romeoville Office Investors, LLC
Development 3	Burr Ridge Office Investors, LLC

**FINRA
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Michael James Blake,
(CRD No. 2022161),

Respondent.

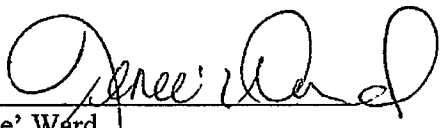
Disciplinary Proceeding
No. 20100217105-01

Hearing Officer:

CERTIFICATE OF SERVICE

Date: March 21, 2013

I hereby certify that on this 21st day of March, 2013, I caused copies of the foregoing Complaint, Notice of Complaint and Index of Initials, to be sent by regular U.S. Postal Service first class mail, and by certified mail, return receipt requested, to Respondent Blake in care of his attorney, Roger W. Hall, at his address of 16435 North Scottsdale Road, Suite 440, Scottsdale, Arizona 85254-1754. I further certify that on the same date I caused copies of the aforementioned documents to be sent via electronic mail and U.S. Postal Service first class mail to FINRA Office of Hearing Officers, 1801 K Street N.W., Washington, DC 20006.


Jenée Ward
Paralegal
FINRA, District 3 - Seattle
601 Union Street, Suite 1616
Seattle, WA 98101
Phone: (206) 624-0790; Fax (206) 623-2518
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FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

**ANSWER OF
MICHAEL JAMES BLAKE**

Respondent Michael James Blake, answering the Complaint, hereby admits, denies, and asserts as follows:

PRELIMINARY STATEMENT

Every year since 2002, the inception of the LLC described in the Complaint (Longest Drive, LLC), Mr. Blake advised his broker-dealer, through his outside-business-activity reports, of the existence of Longest Drive, the activities that Longest Drive was engaging in, and that he was receiving absolutely no compensation for his activities in Longest Drive.

At no time did any of Mr. Blake's broker-dealers *ever* advise Mr. Blake that the real-estate investments in question constituted dealing in securities. The fact that he told his broker-dealers what he was doing and they never told him that he was dealing in securities was *the* primary reason why Mr. Blake did not think that those real-estate investments constituted dealing in securities. Had any of his broker-dealers ever raised a red flag, or even *hinted* that his activities constituted dealing in securities, he certainly would have taken actions different from those he actually took.



Moreover, each and every investor was granted a membership interest in Longest Drive and provided with subscription agreements for their investments. Each of those subscription agreements contained language stating that the entities being invested in "have informed me [Longest Drive] that the Interest [i.e., the investment] will not [sic] be registered pursuant to the Securities Act of 1933, as amended (the 'Act'), or under Arizona or any other state's securities laws based upon your [the entity being invested in's] belief that the Interests are not 'securities' as defined under the Act, or even if so defined, the sale to me [Longest Drive] qualifies for an exemption from the registration requirements of said federal and state securities laws." Copies of each of those subscription agreements are attached here to as Exhibit A.

Since none of his broker-dealers ever advised Mr. Blake that the real-estate investments were securities, and since the entities being invested in each stated, *in writing*, that the investments were not securities, Mr. Blake had no reason whatsoever to believe that those investments were securities.

Further, the nature of Longest Drive and what Mr. Blake did with Longest Drive never changed. In 2002, he disclosed to his broker-dealer at the time, Carillon Investments, Inc., that he had formed Longest Drive with four colleagues, to invest in commercial real-estate projects. Although in subsequent years Longest Drive grew in size, the nature of its activities never changed. It was still a way for individuals to invest in commercial real-estate projects. Since the nature and activities of Longest Drive never changed, Mr. Blake had no reason to believe that a different disclosure was necessary merely because the membership of Longest Drive had grown.

Perhaps most importantly, Mr. Blake never received any compensation for his activities with Longest Drive.

Mr. Blake was not compensated when he brought new investors to Longest Drive. He was not compensated when those investors invested in the different real-estate projects. And he was not compensated by Longest Drive for the work he did on behalf of Longest Drive. Neither he nor Longest Drive received any commission, handling fees, or profited in any way from the real-estate projects, other than any return on investment from the projects themselves.

And Mr. Blake had investments in Longest Drive's real-estate projects just like the other investors did. So the investment made money, he and the other investors made money. So if the investments lost money, he, along with the other investors, did too.

Regarding the second LLC, Longest Drive II (referred to as "LLC II" in the Complaint), that entity never made any investments, and as such was not required to be disclosed as an outside business activity.

SUMMARY

1. Mr. Blake denies the allegations contained in the paragraph 1 of the Complaint. Mr. Blake affirmatively asserts that he only brought \$1.7 million of money into Longest Drive for investment, not the \$3.2 million alleged in paragraph 1.

Mr. Blake further affirmatively asserts that he did not violate NASD Conduct Rule 3040 because he did not engage in any "private securities transaction[s]." Transactions "for which no associated person receives selling compensation" are specifically excepted from the definition of "private securities transaction." *See* NASD Conduct Rule 3040(e)(1). And Mr. Blake did not receive any compensation whatsoever for his activities with Longest Drive.

Mr. Blake additionally affirmatively asserts that he did not violate NASD Conduct Rule 2110. Sub-rule 2110-1 is "reserved," and contains no actual text. There is no sub-rule 2110-2. And sub-rule 2110-3 concerns "front running," which is not alleged anywhere in the Complaint.

2. Mr. Blake denies the allegations contained in paragraph 2 of the Complaint. Indeed, Mr. Blake affirmatively asserts that what he did with Longest Drive in 2002 and disclosed to Carillon as an outside business activity was no different than what he did with Longest Drive in subsequent years. Neither Carillon nor its successor, Ameritas Investment Corporation, ever notified Mr. Blake that his activities with Longest Drive were improper in any way or that the investments constituted securities.

Mr. Blake further affirmatively asserts, for the reasons set forth in paragraph 1, above, that he did not violate NASD Conduct Rule 2110, because that rule addresses front running, which is not alleged in the Complaint.

Mr. Blake additionally affirmatively asserts that he did not violate FINRA Rule 2010. Mr. Blake at all times followed the disclosure requirements of FINRA and his broker dealers and “observe[d] high standards of commercial honor and equitable principles of trade.”

3. Mr. Blake denies the allegations contained in paragraph 3 of the Complaint. Mr. Blake affirmatively asserts that he and his wife’s trust was the only member of Longest Drive II. Further, Longest Drive II had no checkbook or checking account, and was not formed to or ever made any investments. As such, Mr. Blake was not required to disclose Longest Drive II to his broker-dealer.

Mr. Blake further affirmatively asserts that he did not violate NASD Conduct Rule 3030. As an initial matter, that Rule is no longer applicable as it has been superseded. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270—which is not alleged—Mr. Blake did not violate that rule either. FINRA Rule 3270 states that with regard to an outside business activity, a person may not be “compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member.” Here, Mr. Blake was not compensated—but he provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers. Moreover, the broker-dealers

never raised any red flags as to those outside business activities, or advised him that those activities were, or could be considered, private securities transactions.

Mr. Blake additionally affirmatively asserts that for the reasons set forth in paragraph 1, above, he did not violate NASD Conduct Rule 2110 because that rule addresses front running, which is not alleged in the Complaint.

Mr. Blake also affirmatively asserts, that he did not violate FINRA Rule 2010. Mr. Blake at all times followed the disclosure requirements of FINRA and his broker dealers, and "observe[d] high standards of commercial honor and equitable principles of trade."

RESPONDENT AND JURISDICTION

4. Mr. Blake admits the allegations contained in paragraph 4 of the Complaint.

5. Mr. Blake admits the allegations contained in paragraph 5 of the Complaint.

6. Mr. Blake denies the allegations contained in paragraph 6 of the Complaint. A copy of Mr. Blake's resignation letter from Ameritas is attached hereto as Exhibit B.

7. Mr. Blake denies the allegations contained in paragraph 7 of the Complaint. As set forth in paragraph 6, Mr. Blake has resigned from Ameritas.

FIRST CAUSE OF ACTION Selling Away (Private Securities Transactions) (NASD Conduct Rules 3040 and 2110)

8. Mr. Blake incorporates by reference his responses to paragraphs 1-7 of the Complaint as if fully set forth herein.

9. Mr. Blake admits the allegations contained in paragraph 9 of the Complaint.

10. Mr. Blake admits the allegations contained in the first sentence of paragraph 10 of the Complaint. Answering the second sentence, Mr. Blake admits that he formed Longest Drive with four friends. Mr. Blake affirmatively asserts that the full text of item 3 from the OBA Form in question is as follows: "Investment in commercial real estate development. Private investment." Mr. Blake admits that two of Longest Drive's original members were also clients of The Equitable Life Assurance Society of the United States. Mr. Blake denies any remaining allegations contained in the second sentence of paragraph 10. Answering the third sentence of paragraph 10, Mr. Blake asserts that item 11 of the OBA Form in question speaks for itself. Mr. Blake affirmatively asserts that his interest in Longest Drive's initial investment was 20%. Mr. Blake admits that he received no compensation from Longest Drive. Mr. Blake denies any remaining allegations contained in the third sentence of paragraph 10. Mr. Blake admits the allegations contained in the fourth and fifth sentences of paragraph 10.

11. Mr. Blake denies the allegations contained in the first sentence of paragraph 11 of the Complaint. Mr. Blake affirmatively asserts that the additional individuals referred to in paragraph 11 received Internal Revenue Service forms K-1 from Longest Drive, which indicates they were members of Longest Drive. Copies of those K-1s are in FINRA's possession. Answering the second sentence of paragraph 11, Mr. Blake admits that the individuals referred to in paragraph 11 were not given membership agreements for Longest Drive, but affirmatively asserts that each individual was provided with a copy of Longest Drive's Operating Agreement, operating agreements of the projects the individuals were investing in, and as mentioned above, received K-1s indicating membership income from Longest Drive.

12. Mr. Blake admits the allegations contained in paragraph 12 of the Complaint. Mr. Blake affirmatively asserts, however, that as set forth in paragraph 1 above, he only brought \$1.7 million of money into Longest Drive. The remaining \$1.5 million in investments was brought in by other members of Longest Drive.

13. Answering paragraph 13 of the Complaint, Mr. Blake denies that he ever engaged in "soliciting investments" for Longest Drive. Mr. Blake further denies that he engaged in "apprising the investors of the status of the LLC investments." Mr. Blake merely passed along information that Longest Drive received from Grace Communities, which itself was apprising its own investors of the status of the various developments. Mr. Blake admits the remaining allegations contained in paragraph 13. Mr. Blake further affirmatively asserts, however, that the allegation in paragraph 13 that he caused "the preparation of Schedule K1 forms" contradicts the assertion in paragraph 11 that the additional individuals referred to in paragraph 11 "were not members of the LLC."

14. Mr. Blake admits the allegations contained in the first sentence of paragraph 14 of the Complaint. Answering the second sentence of paragraph 14, as detailed in the Preliminary Statement to this Answer, Mr. Blake never believed, and had no reason to believe, that anything Longest Drive was doing constituted a "securities transaction." Every year, Mr. Blake disclosed to Carillon, and later Ameritas, that the activities Longest Drive was engaged in, his involvement in Longest Drive, and the fact that he received no compensation for Longest Drive's activities or his involvement in Longest Drive. And every year, Carillon, and later Ameritas, approved his involvement with Longest Drive. Neither of those broker-dealers ever stated, or even hinted, that Mr. Blake was, or could be perceived to be, engaging in "securities transactions." Moreover, the activities of Longest Drive never changed after those activities were initially approved by Carillon in 2002. Because of that, Mr. Blake believed that he was answering honestly and accurately on his Questionnaires when he stated that he was not

commingling his funds with a client's funds "for a securities transaction." Mr. Blake denies any further allegations or implications contained in paragraph 14.

15. Mr. Blake denies the allegations contained in the first sentence of paragraph 15 of the Complaint. Mr. Blake affirmatively asserts, as repeatedly stated above, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities. Mr. Blake admits the remaining allegations contained in paragraph 15.

16. Mr. Blake admits the allegations contained in the first sentence of paragraph 16 of the Complaint, but affirmatively asserts that he "effected the LLC investments" under the written approval of his OBA Forms, first by Carillon and then by Ameritas. Mr. Blake denies the allegations contained in the second sentence of paragraph 16.

17. Mr. Blake denies the allegations contained in paragraph 17 of the Complaint. Mr. Blake affirmatively asserts, again, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities.

18. Mr. Blake admits the allegations contained in paragraph 18 of the Complaint, but affirmatively asserts that the Grace Communities projects are still active, and so the potential for additional returns on investments still exists.

19. Mr. Blake denies the allegations contained in paragraph 19 of the Complaint. Mr. Blake affirmatively asserts, yet again, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities.

Mr. Blake further affirmatively asserts that he did not violate NASD Conduct Rule 3030. That Rule is no longer applicable and has been superseded. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270—which is not

alleged—Mr. Blake did not violate that rule either. FINRA Rule 3270 states that with regard to outside business activities, a person may not be “compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member.” Here, Mr. Blake was not compensated—but he provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers. Further, his broker-dealers were never even hinted that Mr. Blake’s outside business activities might be in any way improper, or that those activities were, or could be considered, private securities transactions.

Mr. Blake additionally affirmatively asserts that for the reasons set forth in paragraph 1, above, he did not violate NASD Conduct Rule 2110 because that rule addresses front running, which is not alleged in the Complaint.

SECOND CAUSE OF ACTION
(Providing False Information to Member Firm Employer and Omitting to Correct
Inaccurate Information)
(NASD Rule 2110 and FINRA Rule 2010)

20. Answering the first sentence of paragraph 20 of the Complaint, Mr. Blake incorporates by reference his responses to paragraphs 1-20 of the Complaint as if fully set forth herein. Mr. Blake admits the allegations contained in the second sentence of paragraph 20, but affirmatively asserts, as set forth repeatedly above, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities. Mr. Blake denies any remaining allegations or implications contained in paragraph 20.

21. Mr. Blake admits the allegations contained in paragraph 21 of the Complaint.

22. Mr. Blake denies the allegations contained in paragraph 22 of the Complaint. Although he does not have access to the RegEd system to get copies of his 2006 and 2008 OBA Forms, he believes that Ameritas has such access. There is no logical reason why Mr. Blake would disclose Longest Drive in 2002 through 2005, stop for a year in 2006, disclose again in 2007, and then stop again in 2008. As Mr. Blake testified at his FINRA interview on January 19, 2012, and as this office explained in its February 14, 2012 letter to FINRA, Mr. Blake completed two sets of forms through the RegEd system each year: a compliance form and an outside-business-activities form. It may be the case that regarding Mr. Blake, Ameritas has provided the compliance forms but not the outside business activity forms for 2006 and 2008. Moreover, Mr. Blake's broker-dealers never inquired about or asked for missing OBA Forms for 2006 or 2008, which indicates that the broker-dealers in fact already had those forms.

23. Mr. Blake denies the allegations contained in the first sentence of paragraph 23 of the Complaint. Mr. Blake affirmatively asserts that neither the "scope" nor "activity" of Longest Drive changed at all from its inception in 2002, much less changed "significantly." Answering the second sentence of paragraph 23, Mr. Blake admits that by 2007, Longest Drive had become an investment vehicle for approximately 25 other individuals. Mr. Blake denies any remaining allegations contained in the second sentence of paragraph 23. Mr. Blake affirmatively asserts that he was not "substantially" involved in Longest Drive, or that Longest Drive was an "expanded business." Mr. Blake denies any remaining allegations contained in paragraph 23 of the Complaint.

24. Mr. Blake denies the allegations contained in paragraph 24 of the Complaint.

25. Mr. Blake denies the allegations contained in paragraph 25 of the Complaint. Mr. Blake affirmatively asserts that for the reasons set forth in paragraph 1, above, he did not violate NASD Conduct Rule 2110, because that rule addresses front

running, which is not alleged in the Complaint. Mr. Blake additionally affirmatively asserts that he did not violate FINRA Rule 2010. All information provided on his OBA Forms was completely accurate, and Mr. Blake at all times followed the disclosure requirements of FINRA as well as his broker dealers, and "observe[d] high standards of commercial honor and equitable principles of trade."

THIRD CAUSE OF ACTION

(Outside Business Activities—Failure to Comply with Rule Requirements
(NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010))

26. Mr. Blake incorporates by reference his responses to paragraphs 1-25 of the Complaint as if fully set forth herein.

27. Upon information and belief, Mr. Blake admits the allegations contained in the first sentence of paragraph 27 of the Complaint. Answering the second sentence of paragraph 27, Mr. Blake admits that he was the manager of Longest Drive II, but denies that he was the "managing member." Mr. Blake denies that he owned twenty percent or more of Longest Drive II. Mr. Blake affirmatively asserts that the only member of Longest Drive II was "The Michael J. Blake and Janice L. Blake Trust." Mr. Blake denies any remaining allegations contained in the second sentence of paragraph 27. Mr. Blake denies the allegations contained in the third sentence of paragraph 27. Mr. Blake affirmatively asserts that Longest Drive II was set up to handle personal matters for the Blakes. Mr. Blake admits the allegations contained in the fourth sentence of paragraph 27. Mr. Blake denies any remaining allegations contained in paragraph 27.

28. Answering paragraph 28 of the Complaint, Mr. Blake admits that he did not provide Ameritas with any notice concerning Longest Drive II. Mr. Blake denies that any notice to Ameritas was necessary, however, as Longest Drive II was not formed to

make investments, never made any investments, and in fact was set up simply to handle personal matters for the Blakes. Mr. Blake denies any remaining allegations contained in paragraph 28.

29. Mr. Blake denies the allegations contained in paragraph 29 of the Complaint. Mr. Blake affirmatively asserts that he did not violate NASD Conduct Rule 3030. That Rule is no longer applicable and has been superseded. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270—which is not alleged—Mr. Blake did not violate that rule either. FINRA Rule 3270 states that with regard to outside business activities, a person may not be “compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member.” Here, Mr. Blake was not compensated—but he provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers. Moreover, none of his broker-dealers ever advised him that his outside business activities were, or could be considered, private securities transactions.

Mr. Blake additionally affirmatively asserts that he did not violate FINRA Rule 2010. Since Longest Drive II was not formed to and never made any investments, Mr. Blake was not required to disclose it. Moreover, Mr. Blake at all times followed the disclosure requirements of FINRA as well as his broker dealers, and “observe[d] high standards of commercial honor and equitable principles of trade.”

GENERAL DENIAL

Any allegation in the Complaint not specifically admitted in this Answer is hereby denied.

REQUEST FOR HEARING

Pursuant to FINRA Rule 9221(a)(1), Mr. Blake hereby requests a hearing.

AFFIRMATIVE DEFENSES

Mr. Blake hereby alleges the following affirmative defenses:

1. The Complaint fails to state a claim upon which relief can be granted;
2. All of Mr. Blake's outside business activities with Longest Drive were approved, in writing, by each of his broker-dealers.
3. Mr. Blake was not engaged in private securities transactions because he never received any compensation, or had a reasonable expectation of compensation, as a result of his activities with Longest Drive.
4. If Mr. Blake was engaged in private securities transactions, his broker-dealers had an obligation to advise him of such, and if they failed to do so, the responsibility for Blake's engagement in securities transactions is with the broker-dealers and not Blake.
5. Mr. Blake never received any commissions, fees, or any other type of compensation whatsoever regarding his involvement with Longest Drive.
6. Mr. Blake did not violate NASD Conduct Rule 3040 because he did not engage in any "private securities transaction[s]" as that term is defined in NASD Conduct Rule 3040(e)(1), because he did not receive any compensation, or have a reasonable expectation of compensation, for his actions in Longest Drive.
7. Mr. Blake did not violate NASD Conduct Rule 2110 because the only provision of that rule which exists is Rule 2110-3, and that rule concerns front running, which is not alleged in the Complaint.

8. Mr. Blake did not violate FINRA Rule 2010 because Mr. Blake at all times followed the disclosure requirements of FINRA and his broker-dealers, because all of his OBA-Form disclosures were completely accurate, because he was not required to disclose Longest Drive II since it was not formed to and did not engage in any investments, and because at all times Mr. Blake “observe[d] high standards of commercial honor and equitable principles of trade.”

9. Mr. Blake did not violate NASD Conduct Rule 3030 because that rule has been superseded and no longer exists. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270, that has not been alleged. Moreover, FINRA Rule 3270 states that as to outside business activities, a person “may not be compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member.” Mr. Blake was not compensated—but provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers.

RESERVATION OF RIGHTS REGARDING OTHER AFFIRMATIVE DEFENSES

Mr. Blake hereby reserves the right to assert additional affirmative defenses should future discovery, including but not limited to the inspection of documents provided by FINRA Rule 9251, yield a basis for such affirmative defenses.

RELIEF REQUESTED

WHEREFORE, having fully answered the Complaint, Blake respectfully requests:

1. That no relief be granted on the Complaint;
2. That a decision be made in favor of Blake;
3. That Blake recover his attorneys' fees, costs, and expenses to the extent permitted by law, FINRA Rules, and NASD rules.
4. Such other and further relief as the Panel may deem just and proper.

DATED: April 17, 2013

BUCHALTER NEMER

By: 

Roger W. Hall
16435 N. Scottsdale Road, Suite 440
Scottsdale, Arizona 85254
Attorneys for Respondent
Michael James Blake

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

CERTIFICATE OF SERVICE

I hereby certify on the 17th day of April, 2012, I caused the original and three (3) copies of the foregoing Complaint, to be sent electronically and via FedEx, addressed as follows:

Office of Hearing Officers, FINRA
1735 K Street, N.W., 2nd Floor
Washington, D.C. 20006
OHOCASEFilings@finra.org.

-and-

Helen Barnhill, Esq.
Senior Regional Counsel
Jacqueline D. Whelan, Esq.
Regional Chief Counsel
FINRA District No. 3 - Denver
Department of Enforcement
4600 S. Syracuse Street, Suite 1400
Denver, CO 80237

Dated: April 17, 2013

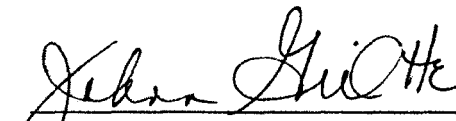

JoAnn Gillotte

EXHIBIT “B”

Ameritas Investment Corp
Salene Hitchcock Gear
President
4550 Montgomery Ave.
12th Floor
Bethesda, MD 20814

Dear Salene,

Per your request my official retirement date from Ameritas Investment Corp will be March 31, 2013.

Continued success and I have enjoyed my ten years with AIC.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael J Blake", written over a horizontal line.

Michael J Blake

cc: Sara Andres
Chief Compliance Officer



OFFICE OF
THE SECRETARY

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

April 19, 2013

IN THE MATTER OF:

Olympus Financial Advisors, LLC
10645 N. Tatum Blvd.
Suite 200-444
Phoenix, AZ 85028

SEC FILE NO.: 801-77826

: ORDER GRANTING
: REGISTRATION PURSUANT
: TO SECTION 203 OF THE
: INVESTMENT ADVISERS
: ACT OF 1940


Olympus Financial Advisors, LLC, ("Applicant"), filed an application for registration as an investment adviser under Section 203(c) of the Investment Advisers Act of 1940 on March 21, 2013. Applicant relied on the exemption from the prohibition on Commission registration provided by Rule 203A-2(d).

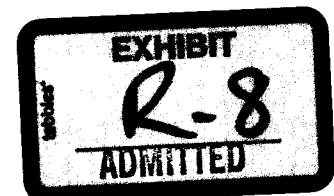
The Commission has determined that the application contains the information prescribed under Section 203(c) and the rules thereunder. The Commission has not passed on the accuracy or adequacy of the information, and the effectiveness of Applicant's registration does not imply Commission approval or disapproval. Accordingly,

IT IS ORDERED, pursuant to Section 203(c)(2)(A) of the Act, that the Applicant's registration hereby is granted, effective forthwith.

Under the terms of the exemption upon which this registration is granted, Applicant, within 120 days after the date of this effectiveness order, must file an amendment to Form ADV revising Item 2A-SEC Registration thereto and, if the amendment indicates that Applicant would be prohibited by section 203A(a) of the Act from registering with the Commission, accompany such amendment by a completed Form ADV-W whereby Applicant withdraws from registration with the Commission. Failure to file this amendment will result in the cancellation of Applicant's investment adviser registration.

FOR THE COMMISSION, by the Office of Compliance Inspections and Examinations, pursuant to delegated authority.


Elizabeth M. Murphy,
Secretary



Background Information

IARD is a Web-based system for the registration of investment advisers and reporting by exempt reporting advisers. The United States Securities and Exchange Commission (SEC or Commission) and the North American Securities Administrators Association (NASAA) created IARD. FINRA is the developer and operator of the system. IARD allows SEC-registered advisers and exempt reporting advisers to file Form ADV and ADV amendments with the Commission and satisfy their "Notice Filing" obligations with the states at the same time. IARD provides regulators with the ability to monitor and process investment adviser information via a single, centralized system.

When you file through IARD, you can complete your electronic Form ADV over a period of time and save the filing as a draft or "pending" filing. It is important to know that no one, other than people entitled by your firm as users can view "pending" filing information. Only after you submit the filing to IARD does it become available for viewing by regulators.

The CRD System was developed jointly by the National Association of Securities Dealers (NASD/FINRA) and NASAA. The CRD system was first launched in 1981 to centralize the registration process for the securities industry (i.e., BD & agent). The CRD system enabled "one-stop filing" (i.e., the ability to submit one application seeking registration in all jurisdictions and self-regulatory organizations). The CRD system streamlined the registration process by maintaining the qualification, employment, disclosure histories, fingerprint process, registration fees and renewal fees. Over the past two (2) decades, it has been expanded and modified extensively to meet the evolving needs of FINRA's constituencies. All states that register investment advisers and their representatives, or require the filing of reports by exempt reporting advisers, participate in Web CRD and accept filings submitted via the Web CRD System.

Investment adviser representative registration was implemented through the Web CRD System on March 18, 2002. Investment Adviser Representative (RA) registration requests and terminations are submitted on Form U4 and Form U5 filings via Web CRD.

Once PFRD access is granted you may complete and file Form PF if: You are registered or required to register with the SEC as an investment adviser, or you are registered or required to register with the Commodity Futures Trading Commission (CFTC) as a commodity pool operator or commodity trading advisor and you are also registered or required to register with the SEC as an investment adviser; and You manage one or more private funds; and You and your related persons, collectively, had at least \$150 million in private fund assets under management as of the last day of your most recently completed fiscal year.

Role of FINRA

In its role as the operator of the IARD/PFRD Systems, FINRA is responsible for designing and operating the system according to the requirements specified by the SEC and NASAA. FINRA also oversees entitlement to the IARD/PFRD Systems, system maintenance and availability. FINRA staffs are available to answer your questions regarding the Entitlement Form, system navigation and system usage. FINRA has no regulatory authority over investment advisers. The review of adviser filings is done entirely by the SEC and/or states with whom you file. FINRA staff cannot advise you on the legal status of filings once they are submitted to the IARD/PFRD Systems.

From: SECIARDNotifications@finra.org [mailto:SECIARDNotifications@finra.org]

Sent: Monday, April 22, 2013 9:10 PM

To: Michael Blake

Subject: Firm 167141: Important Information from the U.S. Securities and Exchange Commission for Newly Registered Investment Advisers

Welcome to registration with the U.S. Securities and Exchange Commission. We are pleased to inform you that the SEC's Secretary has issued an order declaring your registration as an investment adviser to be effective. You will receive a copy of the order in an email and the official paper version will follow by regular mail.

As an investment adviser you must conduct your business in accordance with the requirements of the Investment Advisers Act of 1940 and the rules the Commission has adopted under the Advisers Act. Principal among these is the obligation you have to act in the best interests of your clients. The following link will take you to an overview prepared by the SEC staff of many of the requirements that you need to consider as a registered investment adviser: (www.sec.gov/divisions/investment/advoverview.htm). The overview also provides information about other SEC resources that are available to you. One we would like to highlight is the IARD Information web page at www.sec.gov/divisions/investment/iard.shtml, which includes important announcements and is a portal for information that you may find relevant to your operations as a registered investment adviser.

Finally, now that your registration is effective, the information you filed on Form ADV is available to the public through the Investment Adviser Public Disclosure website at www.adviserinfo.sec.gov. The web site does not display certain personal information, such as individual social security numbers.

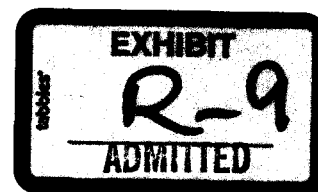
Note: You cannot contact the SEC by replying to this email.

TRACKING INFO:

Date Generated: 04/23/2013 00:10:08

Firm Sent To: OLYMPUS FINANCIAL ADVISORS, LLC(167141)

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From: Julie Ann Brown [mailto:jbrown@macg.com]
Sent: Friday, May 24, 2013 9:10 AM
To: Michael Blake
Cc: Sarah Fong; Tim Brown; Greg Monaco
Subject: FINRA Approval
Importance: High

Hi Michael,

Good news, FINRA has approved your registration late yesterday. However, Arizona has not, hopefully they will soon. I will let you know when I see the registration approval.

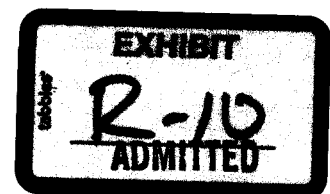
Julie Ann Brown

Licensing & Registration Administrator
Mid Atlantic Capital Corporation
Mid Atlantic Financial Management, Inc.
LPA Insurance Agency, Inc.
180 Promenade Circle, Ste. 220
Sacramento, CA 95834
Phone: 916-286-7843
Fax: 916-286-7860
www.macg.com



Securities offered through Mid Atlantic Capital Corporation, member FINRA/SIPC. Advisory services offered through Mid Atlantic Financial Management, Inc., a registered investment adviser. Trust services offered through Mid Atlantic Trust Company, a non-depository trust company.

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1065

U.S. Return of Partnership Income

OMB No. 1545-0049

Form
Department of the Treasury
Internal Revenue Service

For calendar year 2012, or tax year beginning ending

EXTENSION GRANTED TO 09/16/13

2012

A Principal business activity

Name of partnership

D Employer identification number

INVESTMENTS

LONGEST DRIVE, LLC

32-0012358

B Principal product or service

Print
or
type

Number, street, and room or suite no., if a P.O. box, see the instructions.

E Date business started

9900 N 52ND STREET

04/26/2002

REAL ESTATE

City or town, state, and ZIP code

F Total assets

C Business code number

PARADISE VALLEY

AZ 85253

\$ 2,722,064.

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return (6) ☐ Technical termination - also check (1) or (2)H Check accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ 24

J Check if Schedules C and M-3 are attached ☐

Caution. Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1 a Gross receipts or sales	1a	
	b Returns and allowances	1b	
	c Balance. Subtract line 1b from line 1a	1c	
	2 Cost of goods sold (attach Form 1125-A)	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4	SEE STATEMENT 1
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6	
	7 Other income (loss) (attach statement)	7	
	8 Total income (loss). Combine lines 3 through 7	8	-29,057.
Deductions (see the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)	9	
	10 Guaranteed payments to partners	10	
	11 Repairs and maintenance	11	
	12 Bad debts	12	
	13 Rent	13	
	14 Taxes and licenses	14	
	15 Interest	15	
	16 a Depreciation (if required, attach Form 4562)	16a	
	b Less depreciation reported on Form 1125-A and elsewhere on return	16b	
	17 Depletion (Do not deduct oil and gas depletion.)	17	
	18 Retirement plans, etc.	18	
	19 Employee benefit programs	19	
20 Other deductions (attach statement)	20		
21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21		
22 Ordinary business income (loss). Subtract line 21 from line 8	22	-29,057.	

Sign
Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Signature of general partner or limited liability company member manager

Date

May the IRS discuss this return with the preparer shown below (see instructions) ☒ Yes ☐ NoPaid
Preparer
Use Only

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if

PTIN

JOSEPH EVERS

06/05/13

P00295957

Firm's name ▶

EVERS ROBINSON LTD.

Firm's EIN ▶ 86-0715183

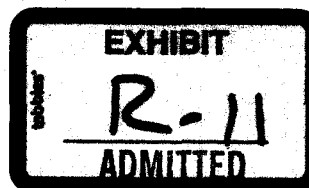
Firm's address ▶ 1300 EAST MISSOURI, SUITE 210

PHOENIX, AZ 85014

Phone no. 602-230-9480

LHA For Paperwork Reduction Act Notice, see separate instructions.

Form 1065 (2012)

211001
12-01-12

Schedule B Other Information

1. What type of entity is filing this return? Check the applicable box:

- a ☐ Domestic general partnership b ☐ Domestic limited partnership
 c ☒ Domestic limited liability company d ☐ Domestic limited liability partnership
 e ☐ Foreign partnership f ☐ Other ▶

Yes No

2. At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person?

X

3. At the end of the tax year:

- a. Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership.
- b. Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership.

X

X

4. At the end of the tax year, did the partnership:

- a. Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

X

(i) Name of Corporation

(ii) Employer Identification Number (if any)

(iii) Country of Incorporation

(iv) Percentage Owned in Voting Stock

- b. Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below.

X

(i) Name of Entity

(ii) Employer Identification Number (if any)

(iii) Type of Entity

(iv) Country of Organization

(v) Maximum Percentage Owned in Profit, Loss, or Capital

DEER PARK OFFICE INVESTORS LLC**20-4817709****PARTNERSHIP UNITED STATES****22.22****BURR RIDGE OFFICE****INVESTORS LLC****20-3665600****PARTNERSHIP UNITED STATES****24.47**

Yes No

5. Did the partnership file Form 6893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 6893 for more details.

X

6. Does the partnership satisfy all four of the following conditions?

- a. The partnership's total receipts for the tax year were less than \$250,000.
- b. The partnership's total assets at the end of the tax year were less than \$1 million.
- c. Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.
- d. The partnership is not filing and is not required to file Schedule M-3. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2, Item F on page 1 of Form 1065, or Item L on Schedule K-1.

X

7. Is this partnership a publicly traded partnership as defined in section 469(k)(2)?

X

8. During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?

X

9. Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?

X

10. At any time during calendar year 2012, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. If "Yes," enter the name of the foreign country. ▶

X

Form 1065 (2012)

Schedule B Other Information (continued)

	Yes	No
11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions		X
12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election.		X
b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		X
c Is the partnership required to adjust the basis of partnership assets under section 743(c) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		X
13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly-owned by the partnership throughout the tax year) <input type="checkbox"/>		
14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		X
15 If the partnership is required to file Form 8868, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8868 attached. See instructions ▶		
16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶		X
17 Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶		
18a Did you make any payments in 2012 that would require you to file Form(s) 1099? See instructions		X
b If "Yes," did you or will you file required Form(s) 1099?		
19 Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶		
20 Enter the number of partners that are foreign governments under section 892. ▶		

Designation of Tax Matters Partner (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ **MICHAEL J BLAKE**Identifying number of TMP ▶ **[REDACTED]**

If the TMP is an entity, name of TMP representative ▶

Phone number of TMP ▶ **[REDACTED]**Address of designated TMP ▶ **9900 N 52ND ST
PARADISE VALLEY, AZ 85253**

Form 1065 (2012)

COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

JODI JERICH
EXECUTIVE DIRECTOR



MATTHEW J. NEUBERT
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007
TELEPHONE: (602) 542-4242
FAX: (602) 396-5661
E-MAIL: securitiesdiv@azcc.gov

ARIZONA CORPORATION COMMISSION

August 19, 2013

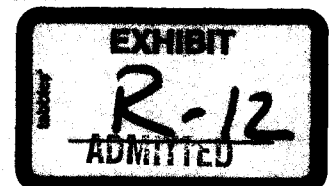
Michael J. Blake
9900 N. 52ND Street
Paradise Valley, AZ 85253

RE: Pending Salesman Application for Blake, Michael J. (CRD #2022161)

Dear Mr. Blake:

The Securities Division ("Division") has reviewed the correspondence received July 16, 2013 in response to our request for information dated June 24, 2013. Based on that review, the Division requests the following information:


1. Provide a list of Michael J Blake's (may be referred to as "You" or "Mr. Blake") securities/investment clients from January 2006 to the present;
2. Provide the names, addresses, and telephone numbers of all past and current Longest Drive LLC members;
3. Provide all Longest Drive LLC membership agreements and related documents, including the dates of membership, percentages, and amounts;
4. Provide a list of all individuals and clients of Mr. Blake, who invested with Office Condominiums of Geneva, LLC, Office Condominiums of Elgin, LLC, Office Condominiums of Elgin II, LLC, Burr Ridge Holdings, LLC, Grace-Monroe, LLC, Baseline Condo Investors, LLC, and any other commercial real estate investment opportunity offered or sold by Donald Zeleznak and/or Jonathon Vento, including but not limited to, in private placement offerings, promissory notes, deeds of trusts, or membership interests (collectively the "Grace Investment(s)"), whether directly or through Longest Drive LLC;
5. Copies of all Private Placement Memoranda (PPM) relevant to each Grace Investment and all related transaction documents, including but not limited to, subscription agreements, operating agreements, prospectuses, investment checks or transfers, deeds of trusts, guarantees, and the address and legal description of the properties or projects being invested into;



6. An accounting and/or all documents relating to how You or Longest Drive LLC. receipted and disbursed all money related to the Grace Investments. Also provide documentation of all principal and interest payments received, related to the Grace Investments;
7. All documents, correspondences, and communications received from and provided to FINRA regarding FINRA docket/examination # 09-04700, 12-01379, 2010021710501 and 20120331211, and FINRA disciplinary proceeding #20100217105-01. If any of the matters are resolved by hearing, consent, or order, please provide a copy of such document;

Only responses tendered in writing will be considered as adequately responding to this letter. Failure to respond may impact or delay our review of your securities application. Should you have any questions, I can be reached at 602.542.0908 or at phuvnh@azcc.gov.

Regards,


Phong (Paul) Huynh
Assistant Chief Counsel
Registration and Compliance

CC: Jeanine Colditz Devine
Mid Atlantic Capital Corporation
1251 Waterfront Place, Suite 510
Pittsburgh, PA 15222-6368

Arizona Corporation Commission
Mr. Phong (Paul) Huynh
Assistant Chief Counsel
Registration and Compliance
1300 West Washington
Third Floor
Phoenix, AZ 85007

Re: Pending Salesman Application for Blake, Michael J. (CRD#2022161)

Dear Mr. Huynh

Thank you for your consideration for my registering my securities license in the state of Arizona. At this time I am only interested in becoming associated with Mid Atlantic Financial Management as an IAR under their RIA.

Once again I want to reiterate that the issues I have had are all the results of an approved outside business activity involving real estate investing. I have never had a complaint in my 23 years regarding my managing of clients assets. I believe the attached letter dated May 24, 2013 from my attorney Roger Hall to Helen G. Barnhill, ESQ, Senior Regional Counsel FINRA, does an excellent job of summarizing my position and the issues. I have attached this letter for your review.

Attached are the explanation and documents that you had requested. I have answered all of your questions to the best of my abilities.
I do appreciate your consideration.

Sincerely,

Michael J Blake

BuchalterNemer
A Professional Law Corporation

16435 NORTH SCOTTSDALE ROAD, SUITE 440 SCOTTSDALE, ARIZONA 85254-1754
TELEPHONE (480) 383-1800 / FAX (480) 824-9400

Direct Dial Number: (480) 383-1845
Direct Facsimile Number: (480) 383-1602
E-Mail Address: rhall@buchalter.com

May 28, 2013

Via E-Mail and U.S. Mail

Helen G. Barnhill, Esq.
Senior Regional Counsel
FINRA
4600 South Syracuse Street, Suite 1400
Denver, CO 80237

Re: Michael Blake; Disciplinary Proceeding No. 20100217105-01
Mr. Blake's Settlement Offer

Dear Ms. Barnhill:

This will constitute Mr. Blake's settlement offer to FINRA.

The very first principle of the FINRA Sanction Guidelines—indeed the very first line—is that “sanctions are remedial in nature and should be designed to deter future misconduct and to improve overall business standards in the securities industry.” FINRA Sanction Guidelines, General Principles Applicable to All Sanction Determinations (“General Principles”), section 1 (heading).

As set forth in his Answer, Mr. Blake relied on written information from Grace Communities that the investments being made were not securities. Additionally, and more importantly, every year he disclosed his actions to each of his broker-dealers, on his Outside Business Activities reports. None of his broker-dealers, AXA Advisors, Carillon, or Ameritas, ever made any objection to his actions with Longest Drive. Nor did either of them ever tell him that he was dealing in securities. Further, Mr. Blake's business, Olympus Financial Advisors LLC, received in-person audits of his files every year, and his broker-dealers still never identified anything that was wrong or told him that anything was wrong.

Perhaps most importantly, though, Mr. Blake never received any compensation from Longest Drive or any of its investors as a result of the work he did through or for Longest Drive. Not a dime.

Based upon the written assurances from Grace Communities, his own broker-dealers' lack of objection or warning, and the fact that he received no compensation, Mr. Blake had no idea that he was dealing in securities. He therefore had no "intent" to engage in any prohibited actions.

Indeed, Mr. Blake's entire goal in forming Longest Drive was to allow friends and family to invest, if they chose to, in what seemed to nearly everyone at the time, to be a red-hot and ever-improving real-estate market. Since Mr. Blake did not receive any compensation whatsoever for his work with Longest Drive, his motivation in telling his friends and family about those investment opportunities was certainly not driven by any financial incentive. And given the FINRA scrutiny that has rained down on him as a result of providing that opportunity, there is absolutely zero chance that Mr. Blake will ever engage in any investment-related outside business activities in the future.

It would therefore not serve the Sanction Guidelines' mandate that sanctions be "remedial" and "designed to deter future misconduct" if Mr. Blake were given a severe sanction, since doing so would then be more in the nature of punishment, rather than the remediation and deterrence mandated by the Sanction Guidelines.

The Sanction Guidelines also state that "[d]isciplinary sanctions should be more severe for recidivists." FINRA Sanction Guidelines, General Principles, section 2 (heading). Until his involvement with Longest Drive, Mr. Blake had a spotless record. He never had any complaints, and had never been investigated by FINRA. He had certainly never been sanctioned by FINRA. Mr. Blake is therefore not a recidivist. And since the Sanction Guidelines reserve severe sanctions for recidivists, Mr. Blake's sanction should not be severe.

The Sanction Guidelines additionally state that "where the violative conduct was unintentional or negligent . . . or the violations resulted from a single systemic problem or cause that has been corrected," those violations should be "batched." Sanction Guidelines, General Principles, section 4.

As explained above and also in his Answer, Mr. Blake had no reason to think that he was engaging in securities trading. The entities being invested in provided written statements to him that the investments were not securities; his broker-dealers were told, every year, of his actions, yet never told him to stop or ever told him that he was trading securities; and his annual in-person audits always came up clean. As a result, "the violative conduct was unintentional."

Further, all of Mr. Blake's alleged violations arose from the same single activity: office-park development investments made through Longest Drive. And since Longest Drive is no longer making any new investments, that single activity has essentially been "corrected."

Mr. Blake's actions therefore fit squarely within the Sanction Guidelines' rubric for hatching, and as a result, Mr. Blake's actions through Longest Drive should be treated as a single violation.

The Sanction Guidelines further state that "[a]djudicators should consider a respondent's ill-gotten gain in determining an appropriate remedy." Sanction Guidelines, General Principles, section 6 (heading").

Here, Mr. Blake did not receive *any* gain, much less any "ill-gotten" gain. He was not compensated for anything he did through or for Longest Drive. Nor did he take or receive a commission from any of the investors in Longest Drive.

Any gain or loss that Mr. Blake realized was the same as that of any other investor, because he personally invested in each of the projects as well. In other words, the opportunities that he told friends and family about were only those that he himself also invested in. Since the Sanction Guidelines mandate that a respondent's "ill-gotten gain" be considered in the determination of a sanction, Mr. Blake's *lack of financial gain* should definitely be a factor in assessing any sanction as well. And since Mr. Blake did not *have* financial gain, any sanction should be less severe.

Regarding the amount of a monetary sanction, the Sanction Guidelines state that "adjudicators are *required* to consider ability to pay in connection with the imposition, reduction or waiver of any fine or restitution." Here, Mr. Blake has been unemployed, and thus without any employment income at all, since April 1. His "ability to pay" is therefore nearly non-existent, since he has virtually no money coming in. And since his lack of income is "required" to be considered as a factor, any monetary sanction should necessarily be relatively low, to reflect the fact that Mr. Blake is rapidly exhausting his financial resources.

Concerning the particular rules that Mr. Blake is alleged to have violated, only two of them, FINRA Rule 2010 and NASD Rule 3040, are specifically mentioned in the Sanction Guidelines. And most of the factors listed with regard to those Rules do not apply to Mr. Blake's situation.

Prior to discussing specific factors, though, it must be noted that NASD Rule 3040 relates to "private securities transactions," and as stated above and in his Answer, Mr. Blake had no reason to believe that his activities with Longest Drive constituted "private securities transactions."

As to some of the specific factors identified in the Sanction Guidelines, Mr. Blake only brought eight investors to Longest Drive, six individuals and two couples.¹ Thus, the number of people involved was not large.

¹ Steve Bernstein; Dan Gallagher; Larry Hampton; Dan and Kathy Hinsley; Doug and Kira Pippert; Pam Pont; Jack Saunders; and Roger Wooley.

The "products" that Longest Drive sold, i.e., the investments, have not been found to involve a violation of federal or state securities laws. Neither have they been found to involve a violation of SRO Rules. Thus, that factor is inapplicable to Mr. Blake's situation.

Nor did Mr. Blake or Longest Drive have a proprietary or beneficial interest in the transactions they conducted. Neither Mr. Blake nor Longest Drive took or received any type of commission for the investments. Mr. Blake and Longest Drive were simply conduits for the investors' money: the amount Mr. Blake and Longest Drive received was the exact amount that was invested. No commission or fees were taken out or charged.

Nor did Mr. Blake ever attempt to create the impression that any of his broker-dealers, AXA, Carillon, or Ameritas, were involved in Longest Drive's activities. He always fully disclosed to investors that Longest Drive was separate from the work he was doing for his broker-dealers, that the broker-dealers were not involved, and that he was not charging the investors any kind of commission.

The investments conducted through Longest Drive did not cause injury to the investing public because each investor was provided with a prospectus detailing the risk, including the risk that the entire investment could be lost. Further, each investor made the investment decision on his or her own. Mr. Blake simply advised them of the opportunity. Additionally, each investor controlled the amount of his or her investment; none of the people that Mr. Blake told of the investment opportunity was required to invest more than they were comfortable with, or invest anything at all for that matter.

Mr. Blake also provided his broker-dealers with repeated written documentation of Longest Drive's activities, on his yearly Outside Business Activities forms.

Nor did Mr. Blake ever engage in activities, including Longest Drive activities, after his broker-dealer instructed him not to. Indeed, neither of Mr. Blake's broker-dealers *ever* told him to stop his activities with Longest Drive. And definitely neither of them told Mr. Blake that what Longest Drive was doing constituted securities transactions.

And Mr. Blake never recruited other registered individuals to sell Longest Drive investments.

Finally, Mr. Blake never misled either of his broker-dealers about the existence of his Longest Drive activities. He disclosed Longest Drive, and what it was doing, every year on his Outside Business Activities forms.

BuchalterNemer

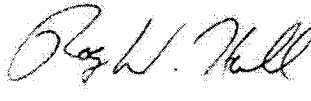
Helen G. Barnhill, Esq.
May 28, 2013
Page 5

In light of all of the foregoing, Mr. Blake believes that a sanction of suspension for 60 days, beginning retroactively from April 1, as well as a monetary fine of \$4,999, is appropriate.

Thank you for your consideration, Ms. Barnhill, and I look forward to hearing back from you soon.

Sincerely,

BUCHALTER NEMER
A Professional Corporation

By 

Roger W. Hall

RWH:jkg

cc: Mr. Michael Blake (*via e-mail only*)

#2 provide a list of names, addresses, and telephone numbers of all past and current Longest Drive LLC members.

This detail is included in my answer to #3.

#3 Provide all Longest Drive LLC membership agreements and related documents, including the dates of membership, percentages and amounts:

There is no individual membership agreements, what I have included is the members signed project form.

#4 The only known client that invested in Office Condominiums of Elgin LLC and Office Condominiums of Geneva was Kira Pippert. The Pipperts were referred to Grace Communities and made their own decision on investing in these projects.

Burr Ridge investors are included in #3 answers above.

#5 Enclosed are copies of the Subscription for Romeoville Office Investors LLC, the Subscription for Burr Ridge Office Investors, LLC, and the Subscription for The Offices at Deer Park Center.

#6 once someone chose to invest in one of the projects whether it was Burr Ridge Office Investors, LLC, Romeoville Office Investors, LLC or The Offices at Deer Park Center, a check was written to Longest Drive LLC and then a check was written to the project by Longest Drive LLC... So far to date there have not been any principal or dividends received from Grace Communities, therefore no principal or dividends have been sent to any members. . These three projects are still active.

#7 Attached are all documents, correspondences and communications received from and provided to FINRA regarding FINRA docket/examination #09-04700, 12-01379, 2010021710501 and 2012020331211 and FINRA disciplinary proceeding #20100217105-1.

My case has been settled with FINRA, I have attached the Order of Settlement.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

Hearing Officer: MC

OFFER OF SETTLEMENT

I.

Respondent Michael James Blake (Respondent) makes this Offer of Settlement (Offer) to the Financial Industry Regulatory Authority (FINRA), with respect to the matters alleged by FINRA in Disciplinary Proceeding No. 2010021710501 filed on March 21, 2013 (Complaint), and amended on August 27, 2013, 2013 (Amended Complaint) and as amended by this Offer. Defined terms used herein have the same meaning as set forth in the Amended Complaint.

This Offer is submitted to resolve this proceeding and is made without admitting or denying the allegations of the Amended Complaint or the allegations set forth herein. It is also submitted upon the condition that FINRA shall not institute or entertain, at any time, any further proceeding as to the Respondent based on the allegations of the Amended Complaint as amended by this Offer, and upon further condition that it will not be used in this proceeding, in any other proceeding, or otherwise, unless it is accepted by the National Adjudicatory Council (NAC) Review Subcommittee, pursuant to FINRA Rule 9270.



II.

ORIGIN OF DISCIPLINARY ACTION

This disciplinary action arose from the filing of an Arbitration Statement of Claim naming the Respondent, in July 2009.

III.

ALLEGED ACTS OR PRACTICES AND VIOLATIONS BY RESPONDENT

As alleged in the Amended Complaint, as amended herein, Respondent engaged in the following acts, or failed to act as follows:

Respondent Michael James Blake, acting outside the course and scope of his employment with his employing member firms, participated in private securities transactions involving the investment of more than \$3.2 million by approximately twenty-eight investors in three investment contracts, without providing prior written notice to his firms of his proposed roles in the transactions. As a result of the foregoing, the Respondent violated NASD Conduct Rules 3040 and 2110.

On numerous forms, Respondent misled his employing member firms regarding his involvement in the foregoing private securities transactions and his participation in the outside business activity through which the transactions were effected, in violation of NASD Conduct Rule 2110 and FINRA Rule 2010.

Finally, Respondent failed to disclose a separate, related outside business activity to his employing member firm, in violation of NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

The Respondent entered the securities industry in or about December 1989 as an associated person of ELA, a FINRA member. He became registered with that firm (which had since changed its name to AX) as an Investment Company and Variable Contracts Products Representative and Principal in February 1990 and January 1996, respectively, as a General Securities Representative in June 1999 and as a General Securities Principal in December 1999.

On November 1, 2002, the Respondent became registered with FINRA member firm Carillon Investments, Inc. ("Carillon") in each of the foregoing capacities. Respondent's association with Carillon ceased on or about June, 2006 when these same registrations were transferred to Ameritas Investment Corporation ("Ameritas").

On March 28, 2013, after the Complaint in this matter was filed, the Respondent's registration with Ameritas was terminated by means of a Form U5 stating the reason for termination as "other" and explaining that Respondent had retired from the Firm. Subsequently, on May 23, 2013, he became registered as an Investment Company and Variable Contracts Products Representative and Principal and as a General Securities Representative through Mid Atlantic Capital Corporation. Under Article V, Section 2 of FINRA's By-Laws, FINRA had jurisdiction to file this action because, at the time the Complaint was issued, he was registered and associated with Ameritas, a FINRA member; further, the Complaint charges him with misconduct committed while he was registered or associated with Ameritas and Carillon, also FINRA member firms.

FIRST CAUSE OF ACTION
Selling Away (Private Securities Transactions)
(NASD Conduct Rules 3040 and 2110)

In or about April 2002, the Respondent formed an LLC so that he and three friends could pool funds to invest in commercial real estate projects. In October 2002, the Respondent notified Carillon of the existence of the LLC in a letter dated October 16, 2002 and an Outside Business Activity Questionnaire ("OBA Form") which he submitted on or about October 21, 2002. In the two documents, Respondent disclosed the business as a "private investment" in commercial real estate development by him and four friends, two of whom were former clients of ELA. He further disclosed that he would not spend any time on the business, in which he had a twenty-percent interest and that he received no compensation from the business. Respondent further represented that, after the LLC selected a particular real estate project, its members would each write a check to the LLC and Respondent, who had signatory authority for the LLC's bank account, would in turn write a check to the real estate development project on behalf of the LLC. The outside business activity, as disclosed, was approved on October 16, 2002 by Carillon's Chief Compliance Officer.

By the summer of 2007, the LLC's size and scope had expanded beyond the several individuals who initially formed the entity, in that approximately twenty-five individuals, who were not members of the LLC, had provided funds to the LLC to make investments in real estate development projects through the LLC. None of these individuals signed a membership agreement with the LLC, and the LLC's Operating Agreement was never amended to reflect the addition of new members.

Between approximately February 2006 and June 2007, the LLC invested approximately \$3,200,000 in real estate properties being developed by GC, a real estate development enterprise

organized as a limited liability company. The invested funds were provided by twenty-eight investors as follows: six persons invested \$250,000 in Development 1 between August and November 2006; three persons invested \$200,000 in Development 2 in October and November 2006 and twenty-three persons invested approximately \$2,755,000 in Development 3 between February 2006 and June 2007 (collectively, the "LLC Investments"). Twelve of these investors were customers of Carillon and/or Ameritas at the time of their respective investments. The Respondent personally invested in each of these three projects.

Respondent participated in the sale of the LLC Investments by soliciting investors, receiving, processing and forwarding the funds that were invested, providing the investors with documentation evidencing their investments, functioning as the point of contact between the investors and GC, apprising the investors of the status of the LLC Investments and causing the preparation of Schedule K1 forms.

The Respondent completed Ameritas Annual Compliance Questionnaires ("Questionnaires") on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires, the Respondent answered "yes" when asked if he understood he was not permitted to commingle his funds with a client's funds and that he was not to accept a client's check made payable to him or any entity or person associated with him for a securities transaction. Even after answering "yes" to these questions on September 18, 2006, the Respondent continued to accept checks made payable to the LLC and in October and November 2006, he commingled his funds with client's funds in the LLC's bank account.

Each LLC Investment involved the purchase of a security in the form of an investment contract. Each entity in which an LLC Investment was made was a common enterprise in which

investor funds were pooled. The investors' returns were to be derived wholly from the efforts of the LLC Investment entity and its manager, GC.

Respondent effected the LLC Investments outside the regular course and scope of his employment with Carillon and Ameritas. Therefore, the transactions are private securities transactions.

The Respondent never advised Carillon or Ameritas orally or in writing that he was participating in the private securities transactions described above. To the contrary, as set forth below, between 2006 and 2008, he indicated each year, in annual compliance questionnaires, that he had not engaged in private securities transactions.

GC filed for bankruptcy in 2009. To date, none of the investors in the LLC Investments have received a return of their principal or any interest or other payments.

As a result of the foregoing, the Respondent participated in private securities transactions without providing to Ameritas and Carillon prior written notice in the form required by NASD Conduct Rule 3040, as required by NASD Rule 3040(b). He therefore violated NASD Conduct Rules 3040 and 2110.

SECOND CAUSE OF ACTION
(Providing False Information to Member Firm Employer and Omitting to Correct
Inaccurate Information)
(NASD Rule 2110 and FINRA Rule 2010)

As noted above, the Respondent completed Questionnaires on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires he falsely answered "no" when asked if he had engaged in private securities transactions.

The Respondent did disclose the LLC as an outside business in OBA Forms on August 31, 2003, September 8, 2004, March 14, 2005 and October 1, 2007. However, the Respondent

did not disclose the LLC as an outside business in OBA Forms which he completed on September 18, 2006 and July 31, 2008, inquiring into all of his outside business activities.

The size, scope and activity of the LLC changed significantly after Respondent's initial disclosure in 2002 that he and four friends had formed an entity to invest in commercial real estate. By 2007, the LLC had become an investment vehicle for approximately 25 other individuals to pool funds for investments in various real estate development projects and Respondent was substantially involved in this expanded business. These changes caused the initial disclosure to become inaccurate and, given the nature and extent of its activities, misleading. Respondent did not amend or update the outside business disclosure concerning the LLC at any time.

By providing false and incomplete information on compliance questionnaires and by failing to update and correct his outside business disclosure, as described above, Respondent misled Ameritas. By misleading the firm, the Respondent deprived his employer of information that could have resulted in the detection of his participation in private securities transactions, notwithstanding his failure to make an affirmative disclosure in the Questionnaires.

By providing false and misleading information to Ameritas from September 2006 through December 14, 2008, Respondent violated NASD Conduct Rule 2110. By providing false and misleading information to Ameritas from December 15, 2008 through June 28, 2009, Respondent violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
Outside Business Activities—Failure to Comply with Rule Requirements
(NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010)

Respondent caused a second limited liability company to be created and to be incorporated in Arizona on or about November 29, 2006 (“LLC II”). Respondent was the Managing Member of LLC II, owning twenty percent or more of the business. LLC II was set up so that any investments made after Development 3 would be made through that entity instead of the first LLC. Respondent closed LLC II in or about November 2010. The Respondent failed to provide Ameritas with any notice at all, including written notice, of LLC II.

As to conduct occurring from November 29, 2006 through December 14, 2008, the Respondent’s failure to provide prompt written notice of LLC II to Ameritas violated NASD Conduct Rules 3030 and 2110. As to conduct occurring from December 15, 2008 through November 30, 2010, the Respondent’s failure to provide prior written notice of LLC II to Ameritas violated NASD Conduct Rule 3030 and FINRA Rule 2010.

IV.

Pursuant to the conditions set forth herein, Respondent consents to the issuance of an Order Accepting Offer of Settlement (Order) and disposing of this proceeding in the following manner:

A. Without admitting or denying the allegations, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings of facts and violations by Respondent as set forth above in Section III; and,

B. Imposing sanctions of a one-year suspension in all capacities from associating with a FINRA member firm and a \$10,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this Offer has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that he is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Respondent understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Respondent may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See FINRA Rules 8310 and 8311.)

The sanctions herein shall be effective on a date set by FINRA staff.

V.

In connection with the submission of this Offer, and subject to the provisions herein, Respondent specifically waives the following rights provided by FINRA's Code of Procedure:

A. any right to a hearing before an Adjudicator (as defined in FINRA Rule 9120(a)), and any right of appeal to the NAC, the U.S. Securities and Exchange Commission, or the U.S.

Court of Appeals, or any right otherwise to challenge or contest the validity of the Order issued, if the Offer and the Order are accepted;

B. any right to claim bias or prejudgment by the Chief Hearing Officer, Hearing Officer, a hearing panel or, if applicable, an extended hearing panel, a panelist on a hearing panel, or, if applicable, an extended hearing panel, the General Counsel, the NAC, or any member of the NAC; and

C. any right to claim a violation by any person or body of the ex parte prohibitions of FINRA Rule 9143, or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of the Offer and the Order or other consideration of the Offer and Order, including acceptance or rejection of such Offer and Order.

VI.

Respondent understands that:

A. the Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;

B. the Order will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary record;

C. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

D. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in the Amended Complaint as amended herein or create the impression that the

Amended Complaint as amended herein is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any allegation in the Amended Complaint as amended herein. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

Respondent certifies that he has read and understands all of the provisions of this Offer and has been given a full opportunity to ask questions about it; that he has agreed to its provisions voluntarily; and that no offer, threat, inducement or promise of any kind or nature, other than the terms set forth herein, has been made to induce him to submit it.

8-29-13
Date

Michael James Blake
Michael James Blake

Roger W. Hall
Roger W. Hall
Counsel for Respondent
Buchalter, Nemer, A Professional Corporation
16435 North Scottsdale Road, Suite 440
Scottsdale, AZ 85254-1754
Direct Dial: (480) 383-1845
Direct Fax: (480) 383-1602
Email: rhall@buchalter.com


ELECTION OF PAYMENT FORM

Respondent intends to pay the fine set forth in the attached Offer of Settlement by the following method (check one):

- ☐ A personal, business or bank check for the full amount;
- ☐ Wire transfer;
- ☒ Credit card authorization for the full amount;¹ or
- ☐ The installment payment plan (only if approved by FINRA staff and the Office of Disciplinary Affairs).²

Respectfully submitted,

8-29-13
Date


Michael J. Blake

¹ You may pay a fine of \$50,000.00 or less using a credit card. Only Mastercard, Visa and American Express are accepted for payment by credit card. If this option is chosen, the appropriate forms will be mailed to you, with an invoice, by FINRA's Finance Department. Do not include your credit card number on this form.

² The installment payment plan is only available for fines of \$5,000 or more. Certain interest payments, minimum initial and monthly payments, and other requirements apply. You must discuss these terms with the FINRA staff prior to requesting this method of payment.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
NOTICE OF ACCEPTANCE OF
OFFER OF SETTLEMENT**

**First Class, Certified Mail, Return Receipt Requested
And E-Mail**

TO: Roger W. Hall, Esq.
Buchalter Nemer
16435 North Scottsdale Road, Suite 440
Scottsdale, AZ 85254-1754

FROM: FINRA, District No. 3A
4600 S. Syracuse Street, Suite 1400
Denver, CO 80237

DATE: September 9, 2013


RE: Offer of Settlement in Disciplinary Proceeding No. 2010021710501

Please be advised that the Offer of Settlement your client submitted in the above-referenced matter has been accepted by FINRA's National Adjudicatory Council (NAC) Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the NAC, pursuant to FINRA Rule 9270. Enclosed is the Order Accepting your Offer of Settlement.

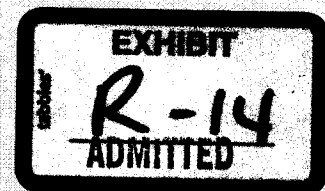
Your client is again reminded of his obligation, if currently registered, to update immediately his Form U4 (Uniform Application for Securities Industry Registration or Transfer) to reflect the conclusion of this disciplinary action. Additionally, he must also notify FINRA in writing of any change of address or other changes required to be made to his Form U4.

You will be notified by the Registration and Disclosure Department regarding sanctions and by the Finance Department regarding the payment of any fine.

If you have any questions concerning this matter, please call the undersigned at (303) 446-3111.


Helen G. Barnhill
Senior Regional Counsel

Enclosure



**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

Hearing Officer: MC

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: September 9, 2013

INTRODUCTION

Disciplinary Proceeding No. 2010021710501 was filed on March 21, 2013 and amended on August 27, 2013, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondent Michael James Blake submitted an Offer of Settlement (Offer) to Complainant dated August 29, 2013. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Amended Complaint as amended by the Offer of Settlement, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations

of the Amended Complaint as amended by the Offer of Settlement, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

The Respondent entered the securities industry in or about December 1989 as an associated person of ELA, a FINRA member. He became registered with that firm (which had since changed its name to AX) as an Investment Company and Variable Contracts Products Representative and Principal in February 1990 and January 1996, respectively, as a General Securities Representative in June 1999 and as a General Securities Principal in December 1999. On November 1, 2002, the Respondent became registered with FINRA member firm Carillon Investments, Inc. ("Carillon") in each of the foregoing capacities. Respondent's association with Carillon ceased on or about June, 2006 when these same registrations were transferred to Ameritas Investment Corporation ("Ameritas").

On March 28, 2013, after the original Complaint in this matter was filed, the Respondent's registration with Ameritas was terminated by means of a Form U5 stating the reason for termination as "other" and explaining that Respondent had retired from the Firm. Subsequently, on May 23, 2013, he became registered as an Investment Company and Variable Contracts Products Representative and Principal and as a General Securities Representative through Mid Atlantic Capital Corporation. Under Article V, Section 2 of FINRA's By-Laws, FINRA had jurisdiction to file this action because, at the time the original Complaint was issued, he was registered and associated with Ameritas, a FINRA member; further, both the original and the Amended Complaint charge him with misconduct committed while he was registered or associated with Ameritas and Carillon, also FINRA member firms.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

As alleged in the Amended Complaint, as amended herein, Respondent engaged in the following acts, or failed to act as follows:

Respondent Michael James Blake, acting outside the course and scope of his employment with his employing member firms, participated in private securities transactions involving the investment of more than \$3.2 million by approximately twenty-eight investors in three investment contracts, without providing prior written notice to his firms of his proposed roles in the transactions. As a result of the foregoing, the Respondent violated NASD Conduct Rules 3040 and 2110.

On numerous forms, Respondent misled his employing member firms regarding his involvement in the foregoing private securities transactions and his participation in the outside business activity through which the transactions were effected, in violation of NASD Conduct Rule 2110 and FINRA Rule 2010.

Finally, Respondent failed to disclose a separate, related outside business activity to his employing member firm, in violation of NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010.

FIRST CAUSE OF ACTION

**Selling Away (Private Securities Transactions)
(NASD Conduct Rules 3040 and 2110)**

In or about April 2002, the Respondent formed an LLC so that he and three friends could pool funds to invest in commercial real estate projects. In October 2002, the Respondent notified

Carillon of the existence of the LLC in a letter dated October 16, 2002 and an Outside Business Activity Questionnaire ("OBA Form") which he submitted on or about October 21, 2002. In the two documents, Respondent disclosed the business as a "private investment" in commercial real estate development by him and four friends, two of whom were former clients of ELA. He further disclosed that he would not spend any time on the business, in which he had a twenty-percent interest and that he received no compensation from the business. Respondent further represented that, after the LLC selected a particular real estate project, its members would each write a check to the LLC and Respondent, who had signatory authority for the LLC's bank account, would in turn write a check to the real estate development project on behalf of the LLC. The outside business activity, as disclosed, was approved on October 16, 2002 by Carillon's Chief Compliance Officer.

By the summer of 2007, the LLC's size and scope had expanded beyond the several individuals who initially formed the entity, in that approximately twenty-five individuals, who were not members of the LLC, had provided funds to the LLC to make investments in real estate development projects through the LLC. None of these individuals signed a membership agreement with the LLC, and the LLC's Operating Agreement was never amended to reflect the addition of new members.

Between approximately February 2006 and June 2007, the LLC invested approximately \$3,200,000 in real estate properties being developed by GC, a real estate development enterprise organized as a limited liability company. The invested funds were provided by twenty-eight investors as follows: six persons invested \$250,000 in Development 1 between August and November 2006; three persons invested \$200,000 in Development 2 in October and November 2006 and twenty-three persons invested approximately \$2,755,000 in Development 3 between

February 2006 and June 2007 (collectively, the "LLC Investments"). Twelve of these investors were customers of Carillon and/or Ameritas at the time of their respective investments. The Respondent personally invested in each of these three projects.

Respondent participated in the sale of the LLC Investments by soliciting investors, receiving, processing and forwarding the funds that were invested, providing the investors with documentation evidencing their investments, functioning as the point of contact between the investors and GC, apprising the investors of the status of the LLC Investments and causing the preparation of Schedule K1 forms.

The Respondent completed Ameritas Annual Compliance Questionnaires ("Questionnaires") on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires, the Respondent answered "yes" when asked if he understood he was not permitted to commingle his funds with a client's funds and that he was not to accept a client's check made payable to him or any entity or person associated with him for a securities transaction. Even after answering "yes" to these questions on September 18, 2006, the Respondent continued to accept checks made payable to the LLC and in October and November 2006, he commingled his funds with client's funds in the LLC's bank account.

Each LLC Investment involved the purchase of a security in the form of an investment contract. Each entity in which an LLC Investment was made was a common enterprise in which investor funds were pooled. The investors' returns were to be derived wholly from the efforts of the LLC Investment entity and its manager, GC.

Respondent effected the LLC Investments outside the regular course and scope of his employment with Carillon and Ameritas. Therefore, the transactions are private securities transactions.

The Respondent never advised Carillon or Ameritas orally or in writing that he was participating in the private securities transactions described above. To the contrary, as set forth below, between 2006 and 2008, he indicated each year, in annual compliance questionnaires, that he had not engaged in private securities transactions.

GC filed for bankruptcy in 2009. To date, none of the investors in the LLC Investments have received a return of their principal or any interest or other payments.

As a result of the foregoing, the Respondent participated in private securities transactions without providing to Ameritas and Carillon prior written notice in the form required by NASD Conduct Rule 3040, as required by NASD Rule 3040(b). He therefore violated NASD Conduct Rules 3040 and 2110.

SECOND CAUSE OF ACTION

**(Providing False Information to Member Firm Employer and Omitting to Correct Inaccurate Information)
(NASD Rule 2110 and FINRA Rule 2010)**

As noted above, the Respondent completed Questionnaires on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires he falsely answered "no" when asked if he had engaged in private securities transactions.

The Respondent did disclose the LLC as an outside business in OBA Forms on August 31, 2003, September 8, 2004, March 14, 2005 and October 1, 2007. However, the Respondent did not disclose the LLC as an outside business in OBA Forms which he completed on September 18, 2006 and July 31, 2008, inquiring into all of his outside business activities.

The size, scope and activity of the LLC changed significantly after Respondent's initial disclosure in 2002 that he and four friends had formed an entity to invest in commercial real estate. By 2007, the LLC had become an investment vehicle for approximately 25 other

individuals to pool funds for investments in various real estate development projects and Respondent was substantially involved in this expanded business. These changes caused the initial disclosure to become inaccurate and, given the nature and extent of its activities, misleading. Respondent did not amend or update the outside business disclosure concerning the LLC at any time.

By providing false and incomplete information on compliance questionnaires and by failing to update and correct his outside business disclosure, as described above, Respondent misled Ameritas. By misleading the firm, the Respondent deprived his employer of information that could have resulted in the detection of his participation in private securities transactions, notwithstanding his failure to make an affirmative disclosure in the Questionnaires.

By providing false and misleading information to Ameritas from September 2006 through December 14, 2008, Respondent violated NASD Conduct Rule 2110. By providing false and misleading information to Ameritas from December 15, 2008 through June 28, 2009, Respondent violated FINRA Rule 2010.

THIRD CAUSE OF ACTION

Outside Business Activities—Failure to Comply with Rule Requirements (NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010)

Respondent caused a second limited liability company to be created and to be incorporated in Arizona on or about November 29, 2006 ("LLC II"). Respondent was the Managing Member of LLC II, owning twenty percent or more of the business. LLC II was set up so that any investments made after Development 3 would be made through that entity instead of the first LLC. Respondent closed LLC II in or about November 2010. The Respondent failed to provide Ameritas with any notice at all, including written notice, of LLC II.

As to conduct occurring from November 29, 2006 through December 14, 2008, the Respondent's failure to provide prompt written notice of LLC II to Ameritas violated NASD Conduct Rules 3030 and 2110. As to conduct occurring from December 15, 2008 through November 30, 2010, the Respondent's failure to provide prior written notice of LLC II to Ameritas violated NASD Conduct Rule 3030 and FINRA Rule 2010.

Based on the foregoing, Respondent violated NASD Conduct Rules 3040, 3030 and 2110 and FINRA Rule 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be suspended from associating with any FINRA member firm in all capacities for one-year and fined \$10,000.

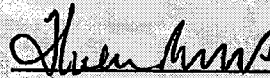
Respondent agrees to pay the monetary sanction upon notice that the Offer has been accepted and that such payments are due and payable. Respondent has submitted an Election of Payment form showing the method by which he proposes to pay the fine imposed.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority



Helen G. Barnhill
Senior Regional Counsel
FINRA Department of Enforcement
4600 S. Syracuse St., Suite 1400
Denver, CO 80237
Phone: (303) 446-3111
Fax Number: (303) 446-3150

**FINRA
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Michael J. Blake
CRD No. 2022161

Respondent.

Disciplinary Proceeding
No. 2010021710501

Hearing Officer: MC

CERTIFICATE OF SERVICE

Date: September 9, 2013

I hereby certify that on Monday, September 9, 2013, I caused a copy of the foregoing Notice of Acceptance of Offer of Settlement and Order Accepting Offer of Settlement to be sent by First class, Certified mail and E-mail to Respondent's attorney Roger W. Hall, Esq., Buchalter Nemer, 16435 North Scottsdale Road, Suite 440, Scottsdale, AZ 85254-1754 (rhall@buchalter.com), and to FINRA Office of Hearing Officers, 1735 K. Street, NW, 2nd Floor, Washington, DC 20006 (OHOCasFilings@finra.org).



Helen Barnhill
Senior Regional Counsel
FINRA, District 3A - Denver
4600 S. Syracuse Street, Suite 1400
Denver, CO 80237

Registrations with Current Employers

Individual CRD#: 2022161

Individual Name: BLAKE, MICHAEL J

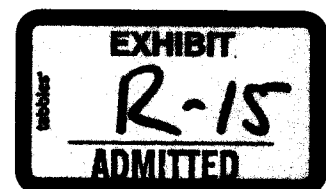
Firm CRD #: 109771

Firm Name : MID ATLANTIC FINANCIAL MANAGEMENT, INC.

Employment Start Date

10/02/2013

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
AZ	RA	10/02/2013	10/02/2013	PENDING	



From: Michael Blake
Sent: Wednesday, October 02, 2013 10:21 AM
To: Julie Ann Brown
Subject: RE: MAFM (RIA) Registration

Julie Ann
Here you go.
Thank you
Michael

From: Julie Ann Brown [mailto:jbrown@macg.com]
Sent: Wednesday, October 02, 2013 10:08 AM
To: Michael Blake
Cc: Tim Brown
Subject: MAFM (RIA) Registration

Hi Michael,

As we discussed, please sign the attached form and send it back to my attention. Upon receipt I will register you with MAFM and in the state of Arizona (pending approval). At that time, I will also withdraw your Arizona registration under MACC (BD).

Let me know if you have any questions.

Regards,
Julie Ann

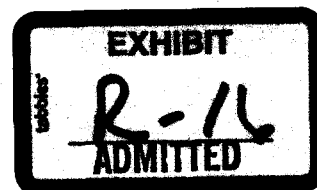
Julie Ann Brown

Licensing & Registration Administrator
Mid Atlantic Capital Corporation
Mid Atlantic Financial Management, Inc.
LPA Insurance Agency, Inc.
180 Promenade Circle, Ste. 220
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Phone: 916-286-7843
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THE COMMERCIAL REAL ESTATE BUBBLE

ADAM J. LEVITIN* AND SUSAN M. WACHTER**

ABSTRACT

Two parallel real estate bubbles emerged in the United States between 2004 and 2008, one in residential real estate, the other in commercial real estate. The residential real estate bubble has received a great deal of popular, scholarly, and policy attention. The commercial real estate bubble, in contrast, has largely been ignored.

This Article shows that the commercial real estate price bubble was accompanied by a change in the source of commercial real estate financing. Starting around 1998, securitization became an increasingly significant part of commercial real estate financing. The commercial mortgage securitization market underwent a major shift in 2004, however, as the traditional buyers of subordinated commercial real estate debt were outbid by collateralized debt obligations (CDOs). Savvy, sophisticated, experienced commercial mortgage securitization investors were replaced by investors who merely wanted "product" to securitize. The result was a decline in underwriting standards in commercial mortgage backed securities (CMBS).

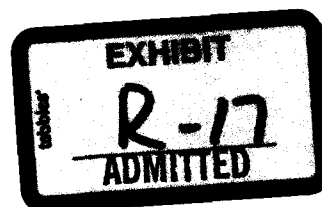
The commercial real estate bubble holds important lessons for understanding the residential real estate bubble. Unlike the residential market, there is almost no government involvement in commercial real estate. The existence of the parallel commercial real estate bubble presents a strong challenge to explanations of the residential bubble that focus on government affordable housing policy, the Community Reinvestment Act, and the role of Fannie Mae and Freddie Mac.

TABLE OF CONTENTS

INTRODUCTION	84
I. RESIDENTIAL AND COMMERCIAL REAL ESTATE FINANCING ...	88
II. THE CHANGE IN CMBS MARKET STRUCTURE	97
III. THE UNDERPRICING OF RISK IN THE CMBS MARKET	104
IV. ALTERNATIVE EXPLANATIONS OF THE CMBS BUBBLE	108
A. Credit Rating Inflation	108
B. Regulatory Capital Arbitrage	110
V. THE REBIRTH OF THE CMBS MARKET	112
CONCLUSION	116

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** Richard B. Worley Professor of Financial Management, The Wharton School, University of Pennsylvania



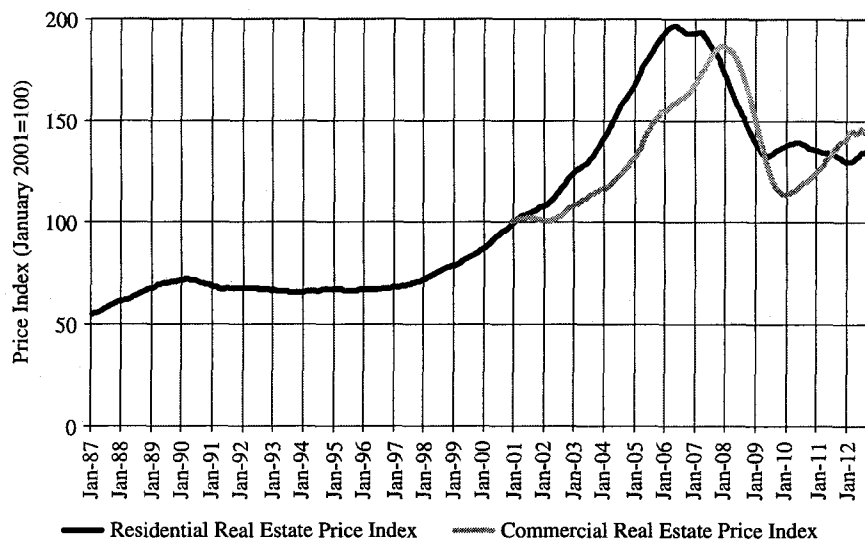
*Double, double toil and trouble
Fire burn, and cauldron bubble.
Macbeth, Act 4, sc. 1, 10–11*

INTRODUCTION

Two parallel real estate price bubbles emerged in the United States between 2004 and 2008, one in residential real estate, the other in commercial real estate.¹ The residential real estate price bubble has attracted a great deal of popular, scholarly, and policy attention.² In contrast, the commercial real estate price bubble and bust have been largely ignored. This Article is the first attempt at a comparative analysis between the commercial real estate price bubble and the residential real estate price bubble.

¹ Regarding the dating of the bubble, see Adam J. Levitin & Susan M. Wachter, *Explaining the Housing Bubble*, 100 GEO. L.J. 1177, 1206–08 (2012). Also, see Figure 1 for more information.

² See, e.g., FIN. CRISIS INQUIRY COMM'N, THE FINANCIAL CRISIS INQUIRY REPORT (2011); THOMAS SOWELL, THE HOUSING BOOM AND BUST (2010); VIRAL V. ACHARYA ET AL., GUARANTEED TO FAIL: FANNIE MAE, FREDDIE MAC, AND THE DEBACLE OF MORTGAGE FINANCE (2011); JAMES R. BARTH ET AL., THE RISE AND FALL OF THE U.S. MORTGAGE AND CREDIT MARKETS (2009); WILLIAM A. GRETCHEN MORGENSEN & JOSHUA ROSNER, RECKLESS ENDANGERMENT: HOW OUTSIZED AMBITION, GREED, AND CORRUPTION LED TO ECONOMIC ARMAGEDDON (2011); WILLIAM A. FREY, WAY TOO BIG TO FAIL: HOW GOVERNMENT AND PRIVATE INDUSTRY CAN BUILD A FAIL-SAFE MORTGAGE SYSTEM (Isaac M. Gradman ed., 2011); ROBERT M. HARDAWAY, THE GREAT AMERICAN HOUSING BUBBLE: THE ROAD TO COLLAPSE (2011); MICHAEL LEWIS, THE BIG SHORT: INSIDE THE DOOMSDAY MACHINE (2011); ADAM MICHAELSON, THE FORECLOSURE OF AMERICA: THE INSIDE STORY OF THE RISE AND FALL OF COUNTRYWIDE HOME LOANS, THE MORTGAGE CRISIS, AND THE DEFAULT OF THE AMERICAN DREAM (2009); BETHANY MCLEAN & JOE NOCERA, ALL THE DEVILS ARE HERE: THE HIDDEN HISTORY OF THE FINANCIAL CRISIS (2011); GRETCHEN MORGENSEN & JOSHUA ROSNER, RECKLESS ENDANGERMENT: HOW OUTSIZED AMBITION, GREED, AND CORRUPTION LED TO ECONOMIC ARMAGEDDON (2011); LAWRENCE ROBERTS, THE GREAT HOUSING BUBBLE: WHY DID HOUSE PRICES FALL? (2008); ROBERT J. SHILLER, THE SUBPRIME SOLUTION: HOW TODAY'S GLOBAL FINANCIAL CRISIS HAPPENED, AND WHAT TO DO ABOUT IT (2008); MARK ZANDI, FINANCIAL SHOCK: A 360° LOOK AT THE SUBPRIME MORTGAGE IMPLOSION, AND HOW TO AVOID THE NEXT FINANCIAL CRISIS (2009).

FIGURE 1. COMMERCIAL AND RESIDENTIAL REAL ESTATE BUBBLES³

We show that the commercial real estate price bubble was accompanied by a change in the source of commercial real estate financing. Specifically, a “bubble” in commercial mortgage-backed securities (CMBS) accompanied the commercial real estate price bubble. The majority of commercial real estate (CRE) lending has always been financed by loans retained on banks’ portfolios.⁴ Beginning around 1998, however, a new financing channel for CRE was developing: commercial real estate securitization.⁵ Commercial mortgage securitization involves the pooling of CRE mortgages into an entity that funds the mortgages by issuing debt securities known as CMBS.⁶

CMBS are almost always tranching for credit risk,⁷ meaning that credit losses are allocated in a senior-subordinate structure, with investors in the

³ S&P/Case-Shiller Home Price Index Composite 10, CSXR-SA, S&P DOW JONES INDICES, <http://www.standardandpoors.com/indices/articles/en/us/?articleType=XLS&assetID=1245214507706> (last visited Feb. 8, 2013) (providing the residential real estate price index); Moody’s/RCA CPPI, National All-Property, available for download at http://www.rcanalytics.com/Public/rca_indices.aspx (last visited Feb. 8, 2013) (providing the commercial real estate price index).

⁴ BD. OF GOVERNORS OF THE FED. RESERVE SYS., FLOW OF FUNDS ACCOUNTS OF THE UNITED STATES – Z.1, HISTORICAL DATA, OUTSTANDING—UNADJUSTED (IN MILLIONS OF DOLLARS), t. L.220 (2012), available at <http://www.federalreserve.gov/releases/z1/current/z1.pdf> [hereinafter FLOWS OF FUNDS ACCOUNTS HISTORICAL DATA OUTSTANDING UNADJUSTED].

⁵ See FED. RESERVE BD. & SEC. & EXCH. COMM’N, REPORT TO CONGRESS ON MARKETS FOR SMALL-BUSINESS AND COMMERCIAL-MORTGAGE-RELATED SECURITIES 2 (1998), available at <http://www.federalreserve.gov/boarddocs/rptcongress/markets.pdf>.

⁶ See Nicola Cetorelli & Stavos Peristiani, *The Role of Banks in Asset Securitization*, FED. RESERVE BD. N.Y. ECON. POL’Y REV., July 2012, at 47, 48–49.

⁷ *Id.* at 49. Some GSE multifamily CMBS are tranching for credit risk, with the GSEs guaranteeing some tranches, but not others. See, e.g., *Multifamily K Series Certificates*, FRED-IE MAC, <http://www.freddiemac.com/mbs/html/product/kcerts.html> (last visited Dec. 6,

subordinated tranches of the securities taking losses before investors in the senior tranches.⁸ Thus, the first loss credit risk in a CRE securitization rests on the purchasers of the subordinated tranches of debt. The junior-most subordinated tranche is known as the "B-piece," and B-piece investors receive diligence and control rights that other investors do not.⁹

The sale of the subordinated debt tranches is critical for a CMBS deal. It is comparatively easy to find buyers for the higher-grade senior debt, but unless the subordinated debt can also be sold, the deal's economics cannot work. The subordinated debt is essentially the "equity" that is then leveraged by the senior debt. Thus, a small subordinated debt investment translates into a much larger CMBS investment in CRE.

Prior to 2004, there was a relatively small cohort of extremely sophisticated and experienced subordinated debt investors and the CMBS market remained limited in size.¹⁰ These subordinated debt investors exerted significant control over the credit risk in deals,¹¹ and their willingness to assume the first loss credit risk functioned as a market regulator of credit risk in the CRE market.

Beginning in 2004, however, the traditional subordinated debt investors began to be outbid by collateralized debt obligations (CDOs). The CDO packagers were not particularly concerned or experienced with CRE credit risk. Instead, they wanted "product" to securitize (in CDOs) and sell. As the savvy, sophisticated traditional B-piece investors were bid out of the market, there was a decline in underwriting standards in commercial real estate as supply rose to meet investor demand for investment-grade rated fixed-income products.¹²

If CMBS are underpriced, it could result in a temporary glut of financing that would enable CRE prices to be bid up beyond the level sustainable by long-run fundamentals. CMBS, however, are not the entirety of the CRE market, and this makes it difficult to state the effect of the CMBS price bubble on the CRE market. Although the percentage of CRE funded by CMBS grew during the bubble, the majority of CRE has been, and continues to be, funded by bank portfolio lending. Bank portfolio CRE lending grew in parallel with CMBS. Therefore, we do not argue that the CRE price bubble was caused by the CMBS bubble.

2012). This is different from the typical GSE MBS in which the GSEs hold all of the credit risk and investors hold the interest rate risk.

⁸ See Certorelli & Peristiani, *supra* note 6, at 49.

⁹ See Andrew V. Petersen, *The Emergence of Subordinated Debt Structures in European CMBS*, in *COMMERCIAL MORTGAGE-BACKED SECURITISATION: DEVELOPMENTS IN THE EUROPEAN CMBS MARKET* 147, 154 (Andrew V. Peterson ed., 2006).

¹⁰ See Brian DiDonato, *High-Yield Debt: Expanded Opportunities for Investors* 3 (Inst. Fiduciary Educ. Paper 2006), <http://www.kaahlsfiles.com/thesis/thesis%20papers/3%20Low/IFE%20High%20Yield%20Debt%20Paper.pdf>.

¹¹ See *id.*

¹² See JAMES D. GRANT, MR. MARKET MISCALCULATES: THE BUBBLE YEARS AND BEYOND 184-92 (2008).

While the contemporaneous rise of the CMBS bubble and the CRE price bubble are hard to explain other than through a causal connection, we cannot prove that such a connection exists. We recognize that other factors might have contributed to the CRE price bubble, including structured finance in general, such as the use of collateralized loan obligations (CLOs) to support bank portfolio lending. Yet at the same time, we know that the residential real estate bubble was caused primarily by a financing glut from private-label residential mortgage-backed securities.¹³ Thus, rather than arguing that the CMBS was the cause of the CRE bubble, we suggest that it likely contributed to the CRE bubble.¹⁴

The closely synchronous parallels between the CRE and residential real estate (RRE) bubbles present a conundrum. Despite some shared fundamentals (and market overlap in the area of multi-family residential housing), CRE and RRE have historically been separate markets.¹⁵ Thus, theories of the RRE bubble that point to government intervention in the housing market as the source of the bubble, be it through the Community Reinvestment Act or through affordable housing goals for Fannie Mae and Freddie Mac (the government-sponsored enterprises or GSE),¹⁶ founder on the CRE bubble. There is almost no government involvement in the CRE market, yet a parallel bubble emerged.

The CRE bubble has yet to attract significant scholarly interest. A pair of recent law review articles have discussed what should be done to revitalize the CRE or commercial mortgage securitization markets,¹⁷ but they do not explore the sources of the bubble (which in turn compromises attempts to prescribe market fixes). The most extensive exploration of the CRE bubble, a Congressional Oversight Panel (COP) report, concluded that "faulty" and "dramatically weakened" underwriting standards resulted in "riskier" commercial real estate loans during the mid-2000s.¹⁸ Professor Tanya Marsh,

¹³ Levitin & Wachter, *supra* note 1.

¹⁴ There is insufficient data to test that point. The data are not available for the most obvious test—an examination of the relative CRE price increases in markets in which CMBS played a more or less prominent financing role.

¹⁵ See *Looking For Income? Consider REITs*, FIDELITY (Feb. 29, 2012), <https://www.fidelity.com/viewpoints/reits-tale-two-markets>.

¹⁶ See, e.g., Peter J. Wallison, *Dissenting Statement*, in THE FINANCIAL CRISIS INQUIRY REPORT, at 443, 444–45 (Fin. Crisis Inquiry Comm'n eds., 2011).

¹⁷ See Tanya D. Marsh, *Too Big to Fail vs. Too Small to Notice: Addressing the Commercial Real Estate Debt Crisis*, 63 ALA. L. REV. 321, 380–82 (2012) (discussing policies that could be adopted to address the commercial real estate debt crises); see also Robert A. Brown, *Financial Reform and the Subsidization of Sophisticated Investors' Ignorance in Securitization Markets*, 7 N.Y.U. J.L. & BUS. 105, 117–121 (2010) (arguing that CMBS deal structures provided CMBS investors significantly greater protections than RMBS investors and that CMBS investors have fared better as a result).

¹⁸ See, CONG. OVERSIGHT PANEL, FEBRUARY OVERSIGHT REPORT: COMMERCIAL REAL ESTATE LOSSES AND THE RISK TO FINANCIAL STABILITY 20, 27–28 (2010), available at <http://cybercemetery.unt.edu/archive/cop/20110402035627/http://cop.senate.gov/documents/cop-021110-report.pdf>. Professor Levitin served as Special Counsel to the Congressional Oversight Panel, but had only tangential involvement with this report.

however, has argued that the COP report “assumes too much,” as its primary evidence are surveys of senior loan officers, which do not provide the granular evidence necessary to conclude that underwriting standards were substantially weakened.¹⁹ Instead, Marsh argues that research needs to examine debt service covenant ratios, reserves, and loan covenants.²⁰

A trio of focused studies by real estate economists Timothy J. Riddiough and Jun Zhu,²¹ Richard Stanton and Nancy Wallace,²² and Andrew Cohen²³ have all separately explored the role of credit rating agencies in the CMBS bubble. While we do not disagree with their assertions of debased CMBS credit ratings in the lead up to the financial crisis, these papers and the literature in general have missed a major institutional market structure shift. In this Article, we explain this shift, which has important implications for the CMBS market going forward.

This Article begins by explaining the differences in the financing of RRE and CRE in Part I. It then turns in Part II to a discussion of the changes in CRE financing and the institutional structure of the CMBS market during the bubble, and in Part III to the decline in CMBS underwriting. Part IV considers alternative explanations of the CMBS bubble. Part V considers why the private-label CRE securitization market has returned, whereas the private-label RRE securitization market remains moribund. Our final section concludes.

I. RESIDENTIAL AND COMMERCIAL REAL ESTATE FINANCING

Real estate is the world's largest asset class, and real estate investment is typically leveraged. Real estate investors use leverage to boost returns, but also because the purchase and improvement of real estate is a capital-intensive endeavor and investors often do not wish to tie up their liquidity in a single, illiquid asset. Thus, borrowing is at the heart of the real estate market, and real estate borrowing is almost always secured with mortgages on the real estate.

While there are many common characteristics to all real estate lending, there are important distinctions between residential and commercial real estate finance. First, any financing must look at the source of repayment. This varies significantly between RRE and CRE.

¹⁹ Tanya D. Marsh, *Understanding the Commercial Real Estate Debt Crisis*, 1 HARV. BUS. L. REV. ONLINE 33, 37 (2011).

²⁰ *Id.*

²¹ See Timothy J. Riddiough & Jun Zhu, *Shopping, Relationships, and Influence In the Market for Credit Ratings* (Nov. 2009) (unpublished manuscript), available at http://merage.uci.edu/ResearchAndCenters/CRE/Resources/Documents/03%20Riddiough%20CreditRatingsGame_11-09.pdf.

²² See Richard Stanton & Nancy Wallace, *CMBS Subordination, Ratings Inflation, and the Crisis of 2007–2009* (Nat'l Bureau of Econ. Research, Working Paper No. 16206, 2010).

²³ See Andrew Cohen, *Rating Shopping in the CMBS Market* (Oct. 2011) (unpublished manuscript), <http://www.federalreserve.gov/events/conferences/2011/rsr/papers/Cohen.pdf>.

In the U.S., RRE loans are frequently non-recourse as either a *de jure* or a *de facto* matter. This means that the lender is looking first to voluntary payments from the borrower's income and other assets as a source of repayment, but ultimately to the property itself. If the borrower cannot or will not pay the mortgage loan, then the lender's recovery in foreclosure will be the property's value minus transaction costs. Accordingly, RRE underwriting focuses on various debt-to-income (DTI) ratios—ratios that measure the ability of the borrower to service the debt from current income—and the loan-to-value (LTV) ratio—which measures the ability of the property itself as a source of repayment.

CRE loans are almost always nonrecourse, and often made to single-purpose entities formed specifically to hold the real estate, although they are sometimes supported by guarantees from third parties, including personal guarantees from the property owner. The repayment source for CRE loans differs, however, from RRE loans. CRE loans are for income-producing properties, whereas RRE loans (other than loans to small landlords with 1–4 family properties) are not for income-producing properties.²⁴ This Article does not consider the financing of multi-family properties (defined as housing more than five families); although securities backed by multi-family properties are considered CMBS, they are a separate and distinct submarket with a different cast of institutional players.

Thus, whereas voluntary payments on RRE loans come first from the personal income and assets of the owner *unrelated to the property*, a CRE loan is typically financed based on the *rents from the property*. In the case of a loan made to a single-purpose entity borrower that is merely a shell holding company for the real estate, there is no income unrelated to rents from the property. This means that a CRE lender is concerned not just about DTI and LTV ratios for its underwriting, but also about the debt service coverage ratio (DSCR)—the ratio of rents from the property to mortgage payments.

Nonrecourse RRE and CRE lending has an implicit “put option” for the borrower included in the loan. The borrower may satisfy the debt by surrendering the property to the lender. This is the equivalent of a “put option” to repurchase the loan, with the strike price being the value of the property. The option is only “in the money” if the property is worth less than the amount owed on the loan (the LTV > 100%), meaning that the property is “upside down” or “underwater” or that there is “negative equity.”

Different factors may mitigate against strategic use of this put option in RRE and CRE. In the RRE context, the property being the borrower's residence as well as an investment serves as a major deterrent against exercising the “put option” through “jingle mail” or “strategic default.” Residential real estate is both an investment and a consumable, and the transaction costs combined with idiosyncratic preferences for particular residences serve as

²⁴ See Charles C. Tu & Mark J. Eppli, *Term Default, Balloon Risk, and Credit Risk in Commercial Mortgages*, J. FIXED INCOME, Dec. 2003, at 42.

strong counterweights to strategic default.²⁵ RRE borrowers also benefit from the fact that mortgage interest on some RRE loans is tax deductible up to \$1,000,000.²⁶ Additionally, consumer credit reporting acts as a disincentive for strategically defaulting in the residential context.²⁷ For CRE, consumption value is rarely a factor (although sometimes CRE borrowers will use the CRE themselves), but personal or third party guarantees may serve as a disincentive to strategically default.

Not only do the repayment sources and use of properties vary between RRE and CRE, but so too does financing. RRE loans tend to be *much* smaller than CRE loans since the value of a residence is typically less than for an office building, for example. A typical RRE loan is for \$200,000, while CRE loans start in the millions and can be for tens of millions or even more for unusual marquee properties. The larger size of CRE loans means that there is greater credit risk exposure on any single property, which affects CMBS securitization structures, as explained below in Part II.

Furthermore, lenders' exposure to interest rate risk differs between RRE and CRE. RRE loans tend to have longer terms than CRE loans. Whereas RRE loans are often for terms of 15–30 years, the standard CRE loan has a 10-year term,²⁸ and longer CRE loans are uncommon. RRE loans are typically fully amortized, while CRE loans are rarely fully amortized.²⁹ CRE loans are either interest-only, with a balloon payment of principal upon maturity or are partially amortized with an amortization period longer than the term of the loan, such as a "10/25," which has a 10-year term and a 25-year amortization, meaning that there is a balloon payment of part of the principal due at maturity.³⁰ Although a sinking fund can be used to accumulate principal for the balloon payment, CRE loans are often intended to be rolled over or refinanced when their terms expire.

In the U.S., RRE loans can usually be easily refinanced or prepaid because they are commonly fixed-rate loans with no prepayment penalties. This means that for most RRE loans, the lender bears the interest rate risk. If rates go up, the lender is stuck holding a below-market rate asset. If rates go down, the borrower will refinance into a market rate product.

²⁵ Strategic default (also known as "ruthless default") means that the homeowner exercises the "put option" implicit in a non-recourse mortgage by abandoning the property to the lender when the put option becomes "in the money" because the loan is "underwater" meaning that the property securing the loan is worth less than the unpaid balance on the loan.

²⁶ 26 U.S.C. § 163(h)(ii) (2006) (permitting tax deduction of interest paid on home mortgages of up to \$1 million).

²⁷ *Credit Reports and Credit Scores*, Bd. of Governors of the Fed. Reserve Sys., <http://www.federalreserve.gov/creditreports/> (last visited Feb. 5, 2013).

²⁸ See Sheridan Titman, Stathis Tompaidis & Sergey Tsyplakov, *Determinants of Credit Spreads in Commercial Mortgages*, 33 REAL ESTATE ECON. 711, 717 (2005).

²⁹ See Tu & Eppli, *supra* note 24, at 42–43.

³⁰ *Id.*

CRE loans are also usually fixed-rate loans,³¹ but CRE loans typically have some sort of prepayment penalty,³² yield maintenance clause,³³ lock-out provision,³⁴ or defeasance term³⁵ that prevents or discourages refinancing if interest rates fall. Moreover, the relatively short term of CRE loans reduces interest rate risk. Thus, CRE lenders have much less exposure to interest rate risk than RRE lenders. They may end up holding an asset with a below-market rate, but they will not lose their above-market rate assets to refinancing. As we explain in Part II below, this means that CMBS securitization structures are focused solely on credit risk.

Residential loans are financed primarily through securitization. 62% of residential mortgages by dollar volume are securitized,³⁶ but securitization rates have been above 80% in recent years.³⁷ Even this figure understates the importance of securitization for RRE finance, as it includes “jumbo” loans and second lien loans that do not qualify for purchase by government-sponsored entities or for FHA-insurance and therefore are securitized at substantially lower rates.³⁸

³¹ Andreas D. Christopoulos, Robert A. Jarrow & Yildirim Yildirim, *Commercial Mortgage-Backed Securities (CMBS) and Market Efficiency with Respect to Costly Information*, 36 REAL ESTATE ECON. 441, 445 (2008).

³² *Id.* A prepayment penalty permits prepayment, but requires an additional penalty payment for prepaying.

³³ A yield maintenance clause permits prepayment, but requires a prepayment penalty such that the yield received to maturity by the lender is not affected.

³⁴ A lock-out provision prohibits prepayment for a certain term.

³⁵ Defeasance is a procedure for permitting the exchange of collateral. See Megan W. Murray, Note, *Prepayment Premiums: Contracting for Future Financial Stability in the Commercial Lending Market*, 96 IOWA L. REV. 1037, 1053–54 (2011). In a typical defeasance situation, the borrower wishes to sell the mortgaged property. Because of a due-on-sale clause in the mortgage, this sale would trigger a prepayment. For Real Estate Mortgage Investment Companies (REMICs) this presents a particular problem because any prepayment must be distributed to the REMIC investors; it cannot be held and reinvested by the REMIC. See 26 U.S.C. § 860G(a)(5)–(6) (2006) (defining a REMIC “permitted investment” to include a “cash flow investment” and then defining “cash flow investment” as “any investment of amounts received under qualified mortgages for a temporary period before distribution to holders of interests in the REMIC. . . .”) (emphasis added); see also 26 C.F.R. § 1.860G-2(8)(g) (2006).

The REMIC tax rules, however, permit the borrower to substitute alternative collateral of government securities for the real estate collateral if the mortgage documents permit such a substitution. See 26 C.F.R. § 1.860G-2(a)(8)(ii)(A)–(D). The purpose is to facilitate a sale of the property rather than to collateralize the REMIC with non-qualified property types, and the defeasance occurs after two years from the REMIC’s start-up date. *Id.* Thus, the mortgage lien on the real estate is cancelled, but the mortgage note remains outstanding and is paid through the cash flow on government securities. For more on REMIC rules see *infra* note 51.

³⁶ INSIDE MORTGAGE FINANCE, 2011 MORTGAGE MARKET STATISTICAL ANNUAL (2011).

³⁷ *Id.*

³⁸ *Id.* The RRE financing market has been undergoing significant changes over the past two decades. Prior to the 1990s, most RRE loans were held in portfolio by their originating lenders, with a significant minority securitized through government-sponsored entities Fannie Mae and Freddie Mac or the government agency Ginnie Mae (for FHA-insured and VA-guaranteed loans). See Patricia A. McCoy, Andrey D. Pavlov & Susan M. Wachter, *Systemic Risk Through Securitization: The Result of Deregulation and Regulatory Failure*, 41 CONN. L. REV. 493, 501–03 (2009). The Savings and Loan (S&L) crisis highlighted the interest rate risks for depositories funding long-term, fixed-rate assets like mortgages through short-term, flighty

The majority of CRE remains financed through portfolio lenders. Approximately 80% of CRE (excluding multifamily residential CRE) debt is currently held in portfolio, rather than securitized.³⁹ Depositories, particularly commercial banks dominate the CRE market, holding roughly half of all CRE debt.⁴⁰ Life insurance companies also play a major role in CRE portfolio lending, holding approximately 10% of CRE debt outstanding.⁴¹ The GSEs hold significant CRE in their own portfolios, but it is exclusively multi-family housing; they do not purchase mortgages backed by office, industrial, retail, or hospitality properties.

As Figure 2 shows, however, an increasingly large share of commercial real estate debt is now financed through commercial mortgage backed securities (CMBS). The issuance of CMBS began gingerly with the Resolution Trust Corporation's efforts to dispose of the assets of failed thrifts.⁴² The RTC began to securitize the failed S&Ls' CRE portfolios in the mid-1990s.⁴³ The success of the RTC securitizations showed that a market could work in CMBS and soon private CMBS deals were being done.⁴⁴ By 2007, CMBS accounted for 26% of CRE debt outstanding and 46% of CRE debt originated in 2007.⁴⁵

liabilities like deposits. *Id.* As interest rates rose in the late 1970s, S&Ls had to offer increasingly high rates to their depositors. See Richard Green et al., *Misaligned Incentives and Mortgage Lending in Asia* 6-7 (Univ. of Pa. Law Sch. Inst. for Law & Econ., Research Paper No. 08-27, 2008), available at <http://ssrn.com/abstract=1287687#>. Yet the S&Ls' primary assets were long-term, fixed-rate mortgages. *Id.* As a result, the S&Ls found themselves paying higher rates than they were earning and were rapidly decapitalized. See McCoy et al., *supra*, at 540.

The mortgage market responded to the problem of rising interest rates in two ways. First, adjustable-rate mortgages became more prevalent, particularly in light of regulatory changes making it possible for federally-chartered banks and S&Ls to issue adjustable-rate obligations. See *id.* at 502. Adjustable-rate mortgages, however, merely transfer interest rate risk from the lender to the borrower, which limits their popularity with consumers because consumers are ill-equipped to handle interest rate risk.

The second response was a shift in mortgage financing away from depositaries and toward securitization. See *id.* at 495-96. Securitization of fixed-rate mortgages places the interest rate risk on mortgage-backed securities investors, who are often better able to match asset and liability durations than depositaries. Until the mid-1990s almost all residential mortgage securitization was done by Fannie Mae, Freddie Mac, and Ginnie Mae; there was only a small private-label securitization market in ultra-prime "jumbo" mortgages. See *id.* at 496-97. The growth and profitability of the real estate securitization market in the 1980s and early 1990s, however, encouraged the entry of private financial institutions, which focused on the riskier subprime market.

³⁹ FLOWS OF FUNDS ACCOUNTS HISTORICAL DATA OUTSTANDING UNADJUSTED, *supra* note 4, at t. F.220.

⁴⁰ *Id.*

⁴¹ *Id.*

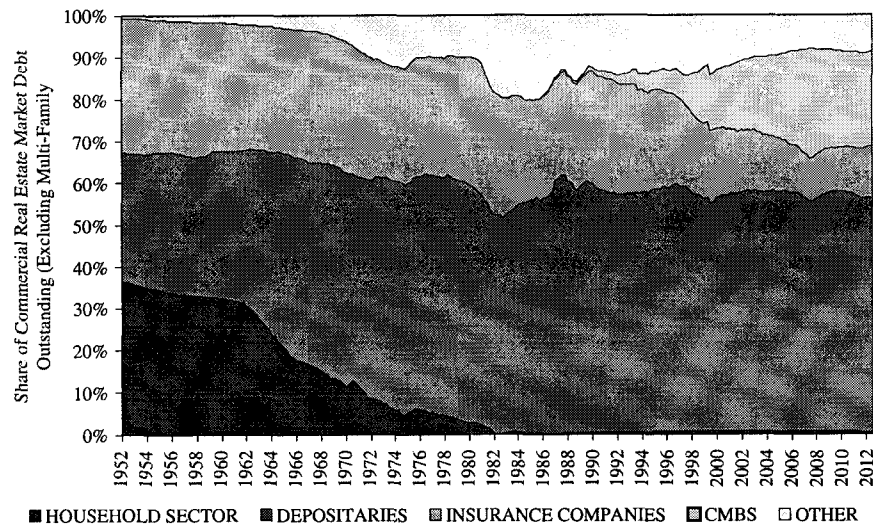
⁴² Andreas D. Christopoulos, Robert A. Jarrow & Yildirim Yildirim, *Commercial Mortgage-Backed Securities (CMBS) and Market Efficiency with Respect to Costly Information*, 36 REAL ESTATE ECON. 441, 441 (2008).

⁴³ *Id.*

⁴⁴ See *id.*

⁴⁵ FLOWS OF FUNDS ACCOUNTS HISTORICAL DATA OUTSTANDING UNADJUSTED, *supra* note 4, at t. F.220.

FIGURE 2. MARKET SHARE OF OUTSTANDING COMMERCIAL REAL ESTATE FINANCING (MULTI-FAMILY EXCLUDED) BY FINANCING CHANNEL⁴⁶



The properties supporting CMBS are much more geographically concentrated than those supporting RMBS. CMBS are backed by properties from roughly sixty major urban markets—markets that are large enough to provide sufficient comparable properties for appraisal purposes. Thus, for these sixty or so markets, CMBS plays a proportionally greater financing role, meaning that the above figures understate the importance of the CMBS financing channel in certain markets. Publicly available market-specific data on financing channels does not exist, but CMBS is focused on these larger markets where information on factors like vacancy rates, market demand (absorption rates) are available.

Also, unlike the RMBS market, the CMBS market is almost entirely private-label securitization. (See Figures 3 and 4 below.) The sole CRE securitized by the GSEs or guaranteed by Ginnie Mae are multi-family residences, and the GSEs and Ginnie Mae account for the majority of multi-family-backed CMBS.⁴⁷ The CMBS market for other CRE property classes such as industrial, retail, office, and hospitality, is financed solely by the private market.

⁴⁶ *Id.* at t. L.220 (“Other” includes finance companies, nonfinancial corporate businesses, and nonfarm noncorporate businesses, GSEs, pension plans, government, REITs, and finance companies) (multi-family properties are excluded).

⁴⁷ *Id.* at t. L.219 (multifamily mortgages).

FIGURE 3. NUMBER OF CMBS DEALS (INCLUDING MULTIFAMILY)
ANNUALLY⁴⁸

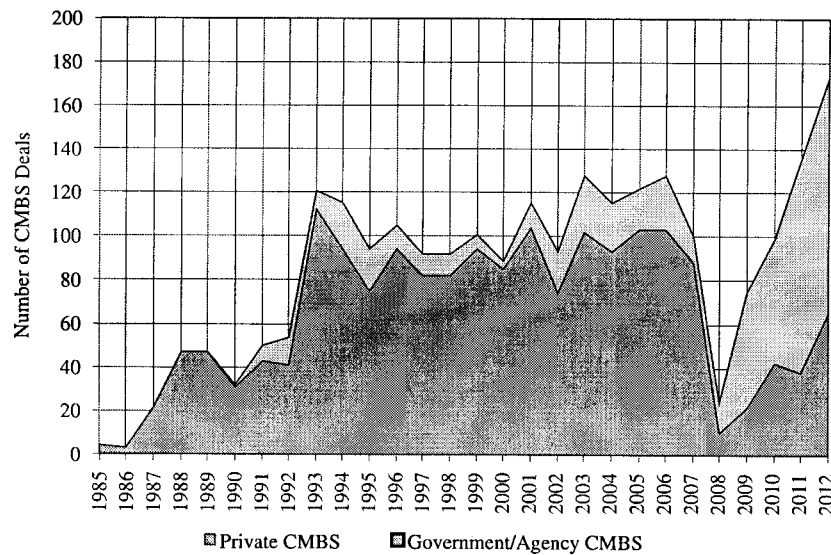
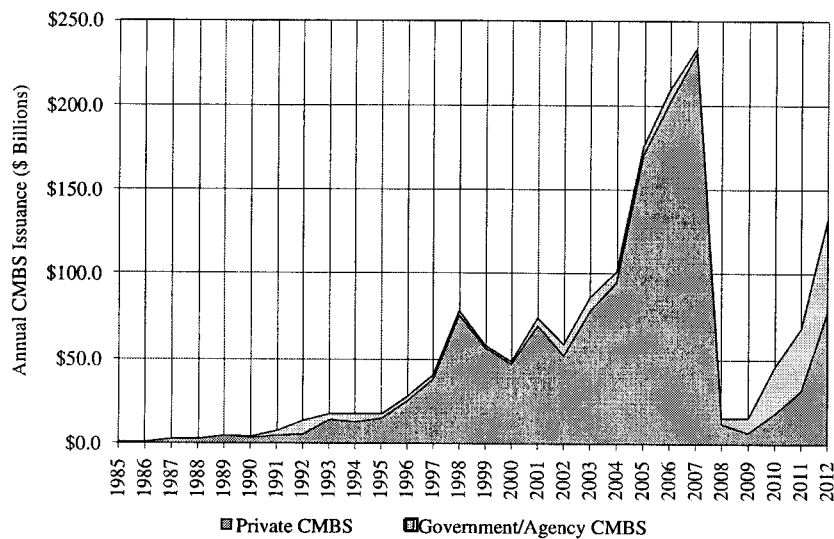


FIGURE 4. TOTAL CMBS DOLLAR VOLUME ISSUANCE ANNUALLY
(INCLUDING MULTIFAMILY)⁴⁹



⁴⁸ CMBS Database, COMMERCIAL MORTGAGE ALERT, http://www.cmalert.com/about_cmbs.php.

⁴⁹ *Id.*

CMBS are one of the simplest securitization structures, as they usually feature no internal credit enhancements other than the senior-subordinate structure of the tranches. Internal credit enhancements commonly found in RMBS such as excess spread or over-collateralization are extremely rare in CMBS.⁵⁰

The vast majority of CMBS is comprised of loans that are originated with an eye toward securitization, known as "conduit" loans.⁵¹ Some loans

⁵⁰ See Cohen, *supra* note 23.

⁵¹ CMBS are almost always structured for pass-through federal tax status as Real Estate Mortgage Investment Conduits (REMICs). See 26 U.S.C. §§ 160–160G (2006). Accordingly, CRE loans originated with an eye toward securitization are known as "conduit loans," and CRE lenders who intend to securitize the loans they make, rather than hold them in portfolio, are known as "conduit lenders". (A few CMBS have been structured as Financial Asset Securitization Investment Trusts (FASITs), another type of pass-through federal tax structure, authorization for which has since been repealed, in part because this structure never found favor in CMBS or any other type of securitization.) See STEVE BERGSMAN, MAVERICK REAL ESTATE FINANCING: THE ART OF RAISING CAPITAL AND OWNING PROPERTIES LIKE ROSS, SANDERS AND CAREY 49–51 (2006).

REMIC status means that the securitization vehicle (referred to as "the REMIC") that elects for REMIC treatment is generally not taxed on the income it collects from the loans it owns. See ALSTON & BIRD LLP, REMIC TAX CONCERNS SURROUNDING FORECLOSURES 2 (2012), available at <http://www.alston.com/Files/Publication/94d73e69-1d90-4357-ac25-56e43c20a17b/Presentation/PublicationAttachment/6e513286-604a-41f4-9d2b-5713fec83da/12-146%20Tax%20Concerns%20Foreclosures.pdf>. Instead, there is only a single level of taxation, on the CMBS investors for the income they receive on the CMBS. The tax-advantaged REMIC status is critical to the economics of CMBS; without pass-through tax status, the post-tax yields on CMBS would be unappealingly low.

The structure of CMBS deals and indeed the underlying loans is heavily shaped by the need to qualify for REMIC status. The REMIC rules place limits on how CMBS securities may be structured, what the collateral in a CMBS deal may be, limits on the modification of the terms of the collateral loans, and restrictions on when the tax-privileged vehicle may acquire and dispose of property.

A REMIC may have only one class of "residual interests," 26 U.S.C. § 860D(a)(2)–(3), which means anything other type of interest than one which pays a specified principal amount, 26 U.S.C. §§ 860G(a)–(b), and the residual interest must pay out pro rata, 26 U.S.C. § 860D(a)(3). This restricts the ability to structure REMICs' residual interests. REMIC status does not mandate the use of a particular type of entity, and CMBS employ a variety of entities, including corporations (with a mandatory independent director and unanimity requirement for bankruptcy filing), limited partnerships (with an SPE as the general partner to avoid the risk of dissolution upon the general partner's bankruptcy under the Revised Uniform Limited Partnership Act), limited liability companies (again with an SPE as a member) and trusts. See U.S. CMBS Legal and Structured Finance Criteria: Special-Purpose Bankruptcy-Remote Entities, STANDARD & POORS (May 1, 2003), <http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245319379077>. This contrasts with RMBS, where the trust form is almost always used. CMBS often eschews the trust form because of the desire to have more active management involvement than is possible with a trust.

A REMIC's assets must be principally secured by a real estate interest, 26 U.S.C. § 860D(a)(4), which IRS regulations have defined as being at 125% LTV or lower. 26 C.F.R. § 1.860G-2(a)(1) (capping value to loan ratios for REMIC eligible assets at 80%, which is 125% loan-to-value). These assets may include mortgages, deeds of trust or participation certificates in pools of mortgage pass-throughs. 26 C.F.R. § 1.860G-2(a)(5).

While not required by REMIC rules, CMBS conduit loans are almost always first-lien loans (including credit tenant leases—loans secured by both the property and the rents from the property's tenants). While second liens are done in CRE financing, the more common form of second lien financing is the mezzanine loan. A mezzanine loan is a loan secured not by the property itself, but by the equity of the company that holds the equity interest in the property,

in CMBS are not originated with securitization in mind; they were intended to be portfolio loans that were subsequently securitized because the lender had liquidity or regulatory capital needs or simply saw a favorable market opportunity.⁵² While the percentage of deals with originated-for-securitization (OFS⁵³) collateral has been above 70% since 1998, it increased between 2004 and 2008—the years of the bubble—to 90%. (See Figure 5.)

typically an LLC. Mark S. Fawer & Michael J. Waters, *Mezzanine Loans and the Intercreditor Agreement: Not Etched in Stone*, REAL ESTATE FIN. J., Spring 2007, at 79, 80. The advantage to this arrangement is that it permits much faster foreclosure, as the LLC interests are personal and thus foreclosed on through Uniform Commercial Code (UCC) procedures, rather than through real estate law. *Id.* at 81. A UCC foreclosure can occur in a matter of weeks, whereas a real estate foreclosure may take months or years. *See id.* Mezzanine loans are typically used to finance new construction, to fund the purchase of underperforming properties on the assumption that higher occupancy rates and thus cash flows are possible, and as a means by which equity-holders can cash out their equity in REMIC properties where prepayment is not feasible because of penalties, yield maintenance, lockout, or defeasance clauses.

The basic idea behind a REMIC's pass-through tax status is that the REMIC is a passive holding shell for mortgages. Accordingly, REMICs are restricted in their ability to acquire, modify and dispose of mortgages. REMICs must acquire their assets on or within 3 months of their startup date, meaning the date on which the REMIC issues its securities, 26 U.S.C. § 860G(a)(3), (9) (defining "qualified mortgage" and "startup date"), unless the asset is a "qualified replacement mortgage" which must be received within 2 years of the REMIC's startup date. 26 U.S.C. § 860G(a)(4). This prevents REMICs from acting as mortgage investment firms. (*See also* Murray, *supra* note 35, on defeasance restrictions for REMICs.) Similarly, REMICs are subject to a punitive 100% tax on all net income from prohibited transactions, which includes any disposal of a mortgage not "incident to the foreclosure, default, or imminent default of the mortgage." 26 U.S.C. § 860F(a)(2)(A)(ii). Likewise, REMICs are restricted in their ability to modify mortgages without the modification being treated as a prohibited transaction, subject to the punitive taxation. 26 C.F.R. § 1.860G-2(b). A major exception is for modification of mortgages where the "[c]hanges in the terms of the obligation [are] occasioned by default or a reasonably foreseeable default." 26 C.F.R. § 1.860G-2(b)(3)(i).

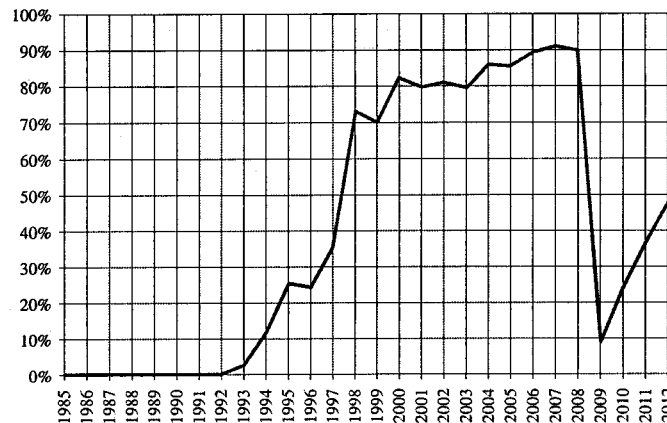
Conduit lenders do hold some risk on the CMBS loans. First, they have warehouse risk, meaning that they are exposed to the performance of the loan between the time of origination and the time of securitization. If the market freezes or it is not possible to securitize the loan for some reason, the conduit lender will be forced to retain the loan. This can be particularly problematic for conduit lenders that funded the loan using a warehouse line of credit; the inability to sell the loan into the securitization market means that the conduit lender cannot repay its warehouse line of credit and will see its financing costs increase.

Conduit lenders also hold risk on the loans they securitize in the form of the representations and warranties they make about the loans in the securitization process. If the representations and warranties are violated, the conduit lender may be required to repurchase the loan from the securitization pool, which place both a liquidity strain on the conduit lender and exposes the conduit lender to the loan's performance going forward.

⁵² The original CMBS securitizations by the Resolution Trust Corporation all involved loans that had originally been in the portfolios of failed banks.

⁵³ For more information on OFS collateral in CMBS, see Xudong An, Yongheng Deng & Stuart A. Gabriel, *Asymmetric Information, Adverse Selection and the Pricing of CMBS 28–29* (Jan. 29, 2010) (unpublished manuscript), available at <http://merage.uci.edu/ResearchAndCenters/CRE/Resources/Documents/01-%20Gabriel-An-Deng%20Asymmetric%20Paper.pdf> (finding that OFS loans are priced to include a "lemons discount").

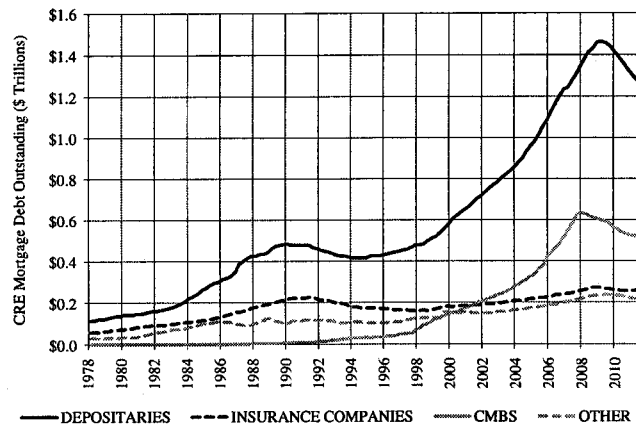
FIGURE 5. PERCENTAGE OF CMBS DEALS WITH ORIGINATED-FOR-SECURITIZATION (OFS) COLLATERAL⁵⁴



II. THE CHANGE IN CMBS MARKET STRUCTURE

There was a dramatic growth in the CMBS market in the decade from 1998 to 2007.⁵⁵ During this decade, the CMBS market not only grew in size; it also witnessed a dramatic change in the identity of its participants.

FIGURE 6. MARKET SHARE OF OUTSTANDING COMMERCIAL REAL ESTATE FINANCING BY FINANCING CHANNEL⁵⁶



⁵⁴ CMBS Database, *supra* note 48 (authors' calculation).

⁵⁵ See Figure 6, *infra*.

⁵⁶ FLOWS OF FUNDS ACCOUNTS HISTORICAL DATA OUTSTANDING UNADJUSTED, *supra* note 4, at L. 220 (commercial mortgages). "Other" includes finance companies, nonfinancial corporate businesses, and nonfarm non-corporate businesses, GSEs, pension plans, government, REITs, and finance companies. Multi-family properties are excluded.

Historically, CMBS were focused on credit risk because CMBS are prone to idiosyncratic default risk—the risk of major loss because of a small number of loan defaults.⁵⁷ In contrast to RMBS, CMBS pools feature small numbers of loans with large balances.⁵⁸ Whereas an RMBS issuance will be backed by a pool of thousands of properties, a CMBS pool will be backed by dozens or hundreds or sometimes even a single property.⁵⁹ Therefore, in a CMBS pool, the relative importance of any particular property's performance is much greater than in an RMBS pool, where idiosyncratic default risk is largely eliminated through diversification.

CMBS's concern about credit risk has resulted in a very different deal structure than in RMBS. A CMBS deal is divided into two parts, an "A-piece" and a "B-piece."⁶⁰ The A-piece consists of the investment-grade tranches, whereas the B-piece consists of the subordinated, non-investment-grade tranches.⁶¹ Because credit risk is concentrated on the B-piece, CMBS deals provide special rights and protections to B-piece investors, beginning in the origination process.⁶²

After a pool of commercial real estate mortgages is created, the CMBS deal sponsor presents the pool to rating agencies to get a sense of what the rating will be given particular structures and credit enhancements.⁶³ Next the pool is presented for bidding to B-piece investors.⁶⁴ The winning bidder performs additional diligence on the pool.⁶⁵ As the result of the diligence, the B-piece investor will sometime insist on "kickouts"—the removal of particular

⁵⁷ *CMBS Pricing*, TREPP, http://www.trepp.com/templ_a.cgi?whichTrepp=m&cmbs_product=pricing ("In the RMBS universe, credit concerns are dwarfed by interest rate risk considerations. In the CMBS universe, however, the opposite is true. Credit risk dominates the analytical process in CMBS as interest rate sensitivity, while still relevant, is of secondary concern."). RMBS investors have historically been more focused on interest rate risk, which is a much smaller concern for CMBS investors. CMBS have little prepayment risk because most CRE loans have prepayment penalties, yield maintenance, or defeasance provisions that make refinancing impractical. See FRANK J. FABOZZI, *FIXED INCOME ANALYSIS* 300 (2nd ed. 2007). Instead, their prepayment characteristics are similar to corporate bonds. *Id.*

⁵⁸ Patrick Corcoran & Joshua Phillips, *Floating Rate Commercial Mortgage-Backed Securities*, CMBS WORLD, Summer 2000, at 14, 15.

⁵⁹ The median (mean) number of properties in a U.S.-denominated CMBS deal with US collateral is 99 (130), and the median (mean) number of loans of is 53 (119) with median (mean) loan size of \$6.62 million (\$6.19 million). *CMBS Database*, *supra* note 48 (authors' calculations). The typical US residential mortgage loan is for about \$200,000. *Id.*

⁶⁰ See Kenneth J. Cusick, *Understanding CMBS: A Borrower's Handbook*, CUSICK FINANCIAL 3 (2009), available at <http://www.cusickfinancial.com/Borrower's%20CMBS%20Handbook.pdf>.

⁶¹ *See id.*

⁶² See Larry Cordell & Adam J. Levitin, *What RMBS Servicing Can Learn from CMBS Servicing* (Geo. Law & Econ. Research Paper, 2010), available at <http://ssrn.com/abstract=1640326>.

⁶³ CW Capital Investments, *The Evolution of the CMBS Market*, Powerpoint Slides for a presentation at the CRE Annual Convention, Maui, Hawaii, slide 11 (October 23–26, 2006), http://www.cre.org/images/events/hawaii_06/presentations/hawaii_06_silva.ppt.

⁶⁴ *Id.*

⁶⁵ *Id.*

loans from the pool.⁶⁶ Once negotiations with the B-piece investor are finalized, the deal is presented to the rating agencies for rating, and once the bonds are rated, the prospectus for the investment grade (A-piece) is circulated to investors.⁶⁷

Before 2004, there were only a small number of B-piece investors. This meant that they could exert significant market power and insist on kickouts for any properties with which they were uncomfortable. Kickouts are expensive for CMBS deal sponsors, typically investment banks that are borrowing money on warehouse lines from commercial banks to finance the purchase of CRE loans that they are pooling for securitization. If a property is kicked out of a deal, the deal sponsor will have to continue to hold that property itself, which means the sponsor is left financing a lemon. The risk of kickouts thus led CMBS deal sponsors to be careful in their selection of properties for pools, which meant that riskier CRE ventures did not get securitized. Because riskier ventures were consigned to balance sheet lending, underwriting standards retained discipline. The strength of subordinate lenders in the CMBS market kept underwriting standards in check.⁶⁸

This market equilibrium changed in 2004, as the B-piece market dramatically expanded with the maturation of the CDO market for CRE.⁶⁹ As a real estate investment trust (REIT) noted in a 2004 letter to investors:

The flurry of new entrants and the emergence of improved CDO technology have dramatically changed the dynamics of B-Piece acquisition. The norm for a B-Piece investor has changed from a buy-and-hold mentality to a CDO warehouse mentality. Many B-Piece investors are aggressively pursuing product with the intent of aggregating it for resale in the form of a CDO. This factor has changed the focus on subordination levels, credit quality, and required yields from appropriate long-term risk-return balancing from a real estate perspective to that of short-term stability until CDO execution. Between the high CDO proceeds (and don't forget who is buying those bonds) and the fees from special servicing and

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ See *The Evolution of Commercial Real Estate (CRE) CDOs*, NOMURA FIXED INCOME RES. (Jan. 4, 2006), http://www.securitization.net/pdf/Nomura/CRE-CDO_4Jan06.pdf ("Subordinate lenders often exercise great influence on the fortune of troubled CRE loans, and the involvement of commercial real estate experts also benefits other CDO investors.").

⁶⁹ See *id.* at 1. CRE CDOs had existed since 1999. *Id.* Originally they were created to provide "long-term, non-mark-to-market financing for CMBS B-piece buyers." See *id.* ("Since the early days, the primary motivation of CRE CDOs has been the financing needs of B-piece buyers and special servicers, who have extensive experience in the commercial real estate market."). The first CRE CDOs were liquidity provision mechanisms for B-piece buyers, not a source of market demand for CRE assets in their own right. The line between providing spot liquidity and becoming a liquidity spigot for the entire market is a fine one, however. Put differently, too much liquidity is no longer liquidity—it's a credit bubble bath.

asset management, the B-Piece investors have very low basis in their interests—no investment at risk.⁷⁰

CDOs represented not only a problem of non-expert CRE investors entering the market, but also a separate agency problem, in that the incentives of CDO managers do not track those of CDO investors.⁷¹ Agency problems are

⁷⁰ ARCap, REIT, Inc. *An Open Letter to Investment Grade Investors: Buyer Beware* 1, 2 The B-Piece 1 (Oct. 2004) (on file with the Harvard Business Law Review).

⁷¹ CDO managers are compensated through two separate management fees, a senior and a subordinated fee. See Douglas J. Lucas, Laurie Goodman & Frank Fabozzi, *Collateralized Debt Obligations and Credit Risk Transfer* 7, (Yale Int'l Ctr. For Fin., Working Paper No. 07-06, 2007), <http://ssrn.com/abstract=997276>. The senior fee is paid at the top of the cash flow waterfall, before any of the investors in the CDO receive payment. See *id.* The subordinated fee is paid after all of the investors other than the "equity tranche" are paid. See *id.* It is the junior most "debt" tranche in the CDO. See *id.* The subordinated fee portion is typically twice the size of the senior fee portion. Manual Arrive & Pablo Mazzini, *Outlook on the CLO Manager Landscape: Features of the Survivors*, THE HEDGE FUND J. (Oct. 2008), <http://www.thehedgefundjournal.com/magazine/200810/research/outlook-on-the-clo-manager-landscape-.php>. (in Europe the term CLO (collateralized loan obligation) is often used for CDO, rather than in its American usage which denotes a securitization of corporate loans).

The fees are based on assets under management, but because of their structuring, the subordinated fee depends on both assets under management and the CDO's performance; if the CDO performs poorly, the subordinated fee will be too far down in the cash flow waterfall to receive a recovery. The belief was that keeping the majority of CDO manager compensation in a subordinated fee would align the CDO manager's incentives with those of the CDO investors. RICK WATSON & JEREMY CARTER, *ASSET SECURITISATION AND SYNTHETIC STRUCTURES: INNOVATIONS IN THE EUROPEAN CREDIT MARKETS* 189 (2006).

In fact, this fee structure encourages CDO managers to (1) maximize assets under management and (2) maximize the short-term return on those assets, even at the expense of long-term performance. While the senior/subordinate structure of CDO managers' fees has some resemblance to that of B-piece investor/special servicers for commercial mortgage-backed securities, it does not fully align the CDO manager's interests with those of investors, the way a "horizontal" tranche that would take a pro rata recovery on all assets in the CDO would do. First, if the CDO manager's fee level is high enough, the CDO manager may be content leaving money on the table in the form of the subordinated tranche; the CDO manager may be making enough money from the senior fee, that income from the subordinated tranche is irrelevant. This appears to have been the case with the infamous CDO manager Wing Chau, memorably described in Michael Lewis' *The Big Short*. See LEWIS, *supra* note 2, at 138-43.

Second, this structure does not compensate the CDO manager based on the ultimate performance-to-maturity of the CDO. Instead, like hedge fund managers, the CDO manager is compensated based on short-term performance. The result is a replication of the dynamics of the bonus-pool reward system and its "fake alpha" problem, with compensation based on short-term excess returns, rather than long-term performance. The CDO manager's fees are paid from both interest and principal payments received by the CDO. Many assets held by CDOs have balloon payment structures, so that in the initial years of the CDO, the assets will be making only interest payments, not principal payments. See CORNERSTONE RESEARCH, *COMMERCIAL REAL ESTATE: IS ANOTHER CRISIS LOOMING?* 7 (2010), available at http://www.cornerstone.com/files/upload/Cornerstone_Research_Commercial_Real_Estate.pdf. The CDO manager's fees, however, have senior and subordinate status in both interest and principal payment waterfalls.

This structure incentivizes CDO managers to load up on high-risk, high-return assets. While many of these assets will eventually default, the defaults will not all happen at the beginning of the CDO's life. This means that for a while, at least, the interest payments received by the CDO will be quite high, so there will be cash flows to cover the subordinated fee. As defaults rise, the subordinated fee may become out-of-the-money, but it may not matter. Unlike investors, CDO managers do not necessarily have any principal invested in the CDO. Thus, any income is in essence "gravy." The CDO manager may have some reputation connected with

endemic to all securitization. They also exist in bank lending. But the essential problem with the entry of the CDOs into the CRE market was not the agency problem, but the information and expertise problem. Agency problems merely exacerbated the expertise and information problems.

The result of the expansion of the B-piece market was increasing liquidity in CRE lending. This was accompanied by deterioration in underwriting standards, as CRE loan originators became agents for securitization conduits, eager to increase volume and without skin in the game. Thus, the same REIT letter to investors observed that by 2004:

Competition among lenders [in the commercial real estate market] is so fierce that borrowers can dictate terms that fly in the face of accepted credit standards. High loan proceeds, low debt service coverage requirements, aggressive property valuations, limited or no reserve requirements, substantial interest-only periods and other similarly aggressive loan terms are increasingly prevalent in conduit transactions. Combined with the non-recourse nature of conduit lending, these terms make it possible for a borrower to purchase and finance a property with little or no equity, strip cash flow for an extended period of time while the property performs, and then "put" the property back to the CMBS trust if the property fails to perform. Between the high loan proceeds and the immediate cash flow, borrowers often have absolute no equity in a property—no investment at risk.⁷²

Structured finance attorneys Stuart Goldstein and Angus Duncan also observed the same phenomenon:

As competition for commercial real estate product has grown, firms have found themselves chasing loans in the US that did not neatly fit into the CMBS 'box.' We have seen the emergence of mezzanine loans, B notes, B participations and preferred equity as means of offering mortgage loan borrowers increased leverage. Originators of this collateral and investors in the B pieces of conduit securitizations wanted to be able to securitise this product, but the rules relating to CMBS would not permit it.⁷³

CDOs offered the solution for securitizing nontraditional CRE collateral.⁷⁴

the CDO, but reputational constraints may be irrelevant if the CDO manager can make enough money in a short time. Put differently, the structure of CDO manager compensation enables one to "get rich quick" and then retire, leaving the CDO investors to hold the bag.

⁷² ARCap, *supra* note 70. .

⁷³ Stuart Goldstein & Angus Duncan, *The Developing Global Market for CRE CDOs*, ISR CDO SUPPLEMENT (March 2007), <http://www.cadwalader.com/assets/article/030107DuncanGoldsteinISR.pdf>.

⁷⁴ CDOs also contributed to the growth in portfolio lending, as they purchased not only CMBS, but also various junior interests in real estate such as B-notes, mezzanine loans, and the like. As Jonathan Shlis has noted:

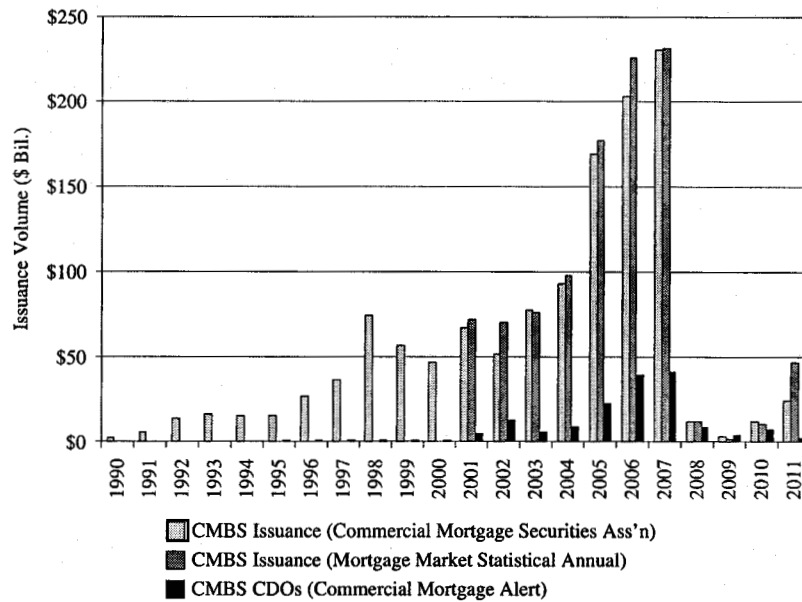
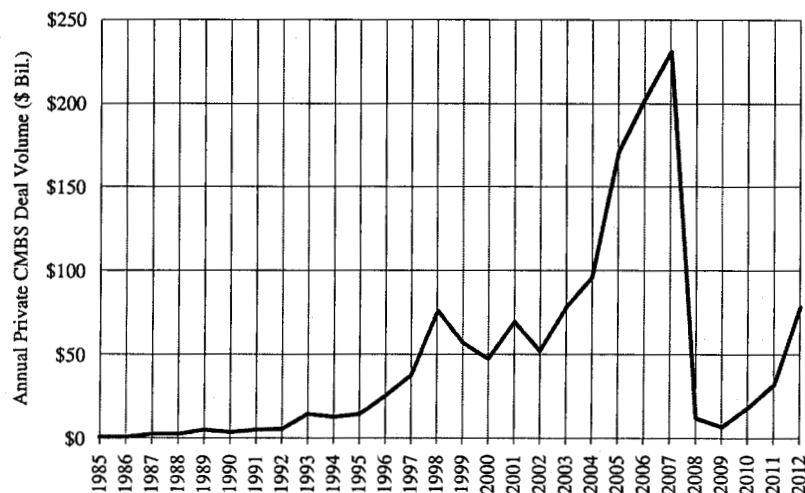
By 2004, however, the CRE CDO market had begun to change and with it the leverage that traditional B-piece buyers had over quality of CMBS underwriting declined. As the CRE CDO market expanded, a new class of B-piece buyers emerged. These new buyers were primarily conduit buyers, looking to repackage the B-pieces they purchased into CRE CDOs. As intermediaries, rather than end-investors, these new B-piece buyers were not particularly concerned about credit risk and lacked the long-standing CRE experience of traditional B-piece buyers. Not surprisingly, underwriting standards deteriorated.

Because it was now much easier for CMBS sponsors to sell the B-piece of deals, CMBS volume boomed along with CRE CDO volume. (See Figures 7 and 8, below.) CRE CDOs nearly tripled in volume from 2004 to 2005 and CRE CDO volume was nearly a fifth of the total CMBS market. Moreover, existing CRE CDOs and CDOs were also resecuritized, creating an investment cocktail with unique "complexity and high leverage."⁷⁵ The expansion of CMBS relative to CDOs was essentially a leveraging of CDO investment in the B-piece with AAA-rated senior tranche investment. Thus a dollar in CDO investment in a CMBS B-piece translated into substantially more dollars in CMBS financing of CRE, and a dollar in CDO investment translated into yet more dollars in CMBS financing of CRE. Thus, a small expansion of the B-piece market meant a much larger expansion of credit for CMBS and thus for CRE.

Prior to 2004/2005, CRE CDOs were terra incognita—and deservedly so—to most commercial real estate borrowers. Before those dates, CRE CDOs almost always were comprised solely of REIT debt, and, importantly, unrated and below-investment-grade rated CMBS tranches known as first loss pieces ("B-Piece"), providing long term financing to B-Piece buyers, thereby adding liquidity and providing a degree of risk sharing to the CMBS process. But in 2004, B-Notes [subordinated mortgage notes], mezzanine loans [loans made to LLC development companies that own the equity in real estate developments], credit tenant leases, loans and debt-like preferred equity were included with B-Pieces and REIT debt in CRE CDOs. And then in 2005, first mortgage commercial real estate loans—"whole loans"—started becoming collateral assets in CRE CDOs [meaning that whole loans were going directly into CDOs, rather than into CMBS].

Jonathan Shils, *Managed CRE CDO v. CMBS: Is One Better For A Borrower?*, THE AM. L. INST. CONTINUING LEGAL EDUCATION GROUP, http://files.ali-aba.org/thumbs/datastorage/skoob/articles/TAB16-Shils_thumb.pdf.

⁷⁵ Nomura, *supra* note 68.

FIGURE 7. CMBS AND CRE CDO ISSUANCE VOLUME⁷⁶FIGURE 8. ANNUAL PRIVATE (NON-GSE/NON-GOVERNMENT) CMBS DEAL AMOUNTS (\$ BILLIONS)⁷⁷

⁷⁶ COMMERCIAL MORTG. SEC. ASSOC.; COMMERCIAL MTG ALERT, SUMMARY OF CDS ISSUANCE, available at <http://www.cmalert.com/ranking.php?rid=319>; INSIDE MORTGAGE FINANCE, 2010 MORTGAGE MARKET STATISTICAL ANNUAL (2010).

⁷⁷ CMBS Database, *supra* note 48 (authors' calculations). Curiously, while aggregate annual deal amounts increased significantly during the bubble, the number of deals was static;

The development of the “new breed of CRE CDOs” created “added complexity in analyzing exposures to the commercial real estate sector that involve multiple layers of pooling and tranching⁷⁸ Accordingly, Nomura Fixed Income Research observed in 2006, that “Unfortunately, it is not clear at present if the rating agencies and market participants fully appreciate the implications of structural characteristics in different CRE assets [CRE, CMBS, CRE CDOs, and CRE CDOs].”⁷⁹

III. THE UNDERPRICING OF RISK IN THE CMBS MARKET

As with RMBS, CMBS underwriting standards declined noticeably from 2004 to 2007. This can be measured through observable loan characteristics.⁸⁰ Loan structures were changing as interest-only loans became increasingly common, rising from 47% of CMBS loans in 2004 to 86% in 2007.⁸¹ This meant that there was decreasing protection from balloon risk at the loan level and less build of subordination at the deal level; with an amortizing loan, subordination levels increase as principal is paid off on the loan, making the senior tranches *safer* over time.

Stated DSCRs also began to decline in 2004.⁸² The true extent of this decline may not be observable because of changes in how DSCRs were calculated. During this period, so-called “pro forma” loans emerged in CRE. Pro forma loans were the CRE equivalent of NINJA (no income, no job, no assets) loans in the RRE market. Pro forma loans calculated the DSCR are based on *prospective* rents, including leases anticipated, but not in-place and future rent increases, rather than leases in hand.⁸³ In other words, pro forma loans’ DSCRs were solely aspirational. Thus, the decline in DSCR might well have been more pronounced than stated numbers show.

Stated, observable LTVs remained steady during this period.⁸⁴ However, the presence of steady LTVs in a period with inflated asset prices actually indicates declining underwriting standards; if asset prices are inflated,

in other words, the average deal size increased significantly, rather than the number of deals. To some degree, of course, this reflects CRE price inflation from the bubble.

⁷⁸ Nomura, *supra* note 68.

⁷⁹ *Id.*

⁸⁰ Beyond these observable factors, we cannot rule out the existence of other, non-observable changes in the underwriting of CMBS.

⁸¹ Bill Pollert, *Investors Strike Shuts Down Credit Markets* 16, 18 (Feb. 1, 2008), http://warrington.ufl.edu/graduate/academics/msf/docs/speakers/presentation_WPollert1.pdf; see also Joseph Gyourko, *Understanding Commercial Real Estate: Just How Different from Housing Is It?* 28 (Nat’l Bureau of Econ. Research, Working Paper No. 14708, 2009), available at <http://www.nber.org/papers/w14708> (between 2003 and 2007, the fraction of conduit loans with partial or full IO periods went from 10% to 90%).

⁸² Stanton & Wallace, *supra* note 22, at 8.

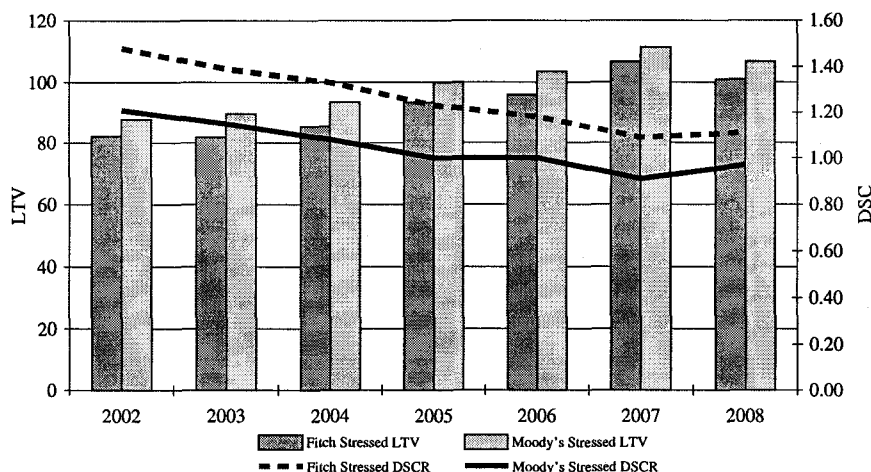
⁸³ Gyourko, *supra* note 81, at 6, 29 (citing \$40 billion in pro forma loans in market); see also Richard Stanton & Nancy Wallace, *CMBS Subordination, Ratings Inflation, and Regulatory-Capital Arbitrage* (Aug. 6, 2012), <http://faculty.haas.berkeley.edu/stanton/papers/pdf/cmbx.pdf> (recognizing that pro forma underwriting might debase DSCRs).

⁸⁴ Stanton & Wallace, *supra* note 22, at 8.

steady underwriting standards would require declining LTVs. If so, then a lack of volatility in CMBS pricing would indicate not steady underwriting standards, but declining underwriting standards because the pricing would have held steady while risk increased.

The rating agencies themselves seemed to understand that underwriting quality was declining. CMBS ratings involve the credit rating agency taking the loan-level data given to it by the CMBS deal sponsor and re-underwriting the loans based on what the rating agency believes are the stable cash flows, which produce a new "stressed LTV" and "stressed DSCR."⁸⁵ If one looks at the rating agencies' stressed LTV ratios, those ratios actually increased and stressed DSCRs fell.⁸⁶ (See Figures 9 and 10)

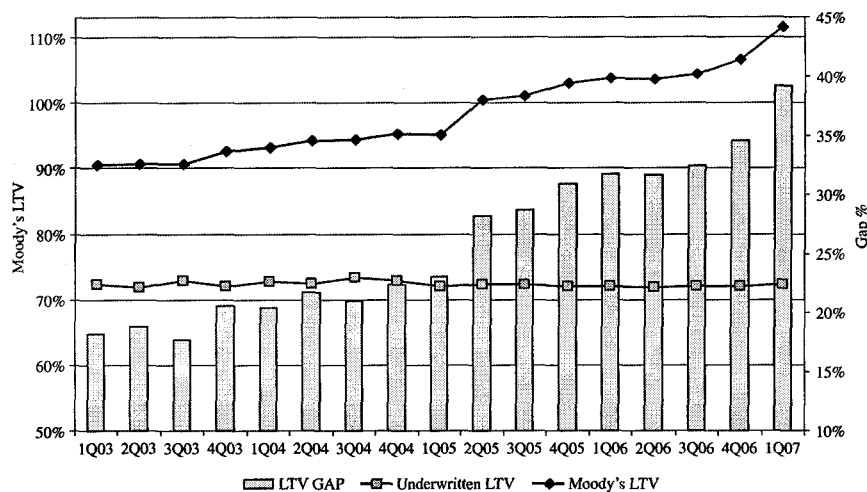
FIGURE 9. DECLINE IN CMBS UNDERWRITING STANDARDS⁸⁷



⁸⁵ See Cohen, *supra* note 23, at 4, 16–17.

⁸⁶ See *id.*; see also Fig. 4 and 5, *supra*. Notably, these stressed LTVs and DSCRs were available to investors in "pre-sale" reports from the ratings agencies. The disconnect between the ratings and the analysis is an important topic beyond the scope of this Article.

⁸⁷ Joseph N. Iadarola, Jr., *The Opportunity for Investing in Commercial Mortgage Debt 4* (Babson Capital Management LLC Research Paper No. CRE3701_08/413, 2008), available at <http://www.babsoncapital.com/BabsonCapital/http/bcstaticfiles/Research/file/The%20Opportunity%20for%20Investing%20in%20Commercial%20Mortgage%20Debt.pdf>.

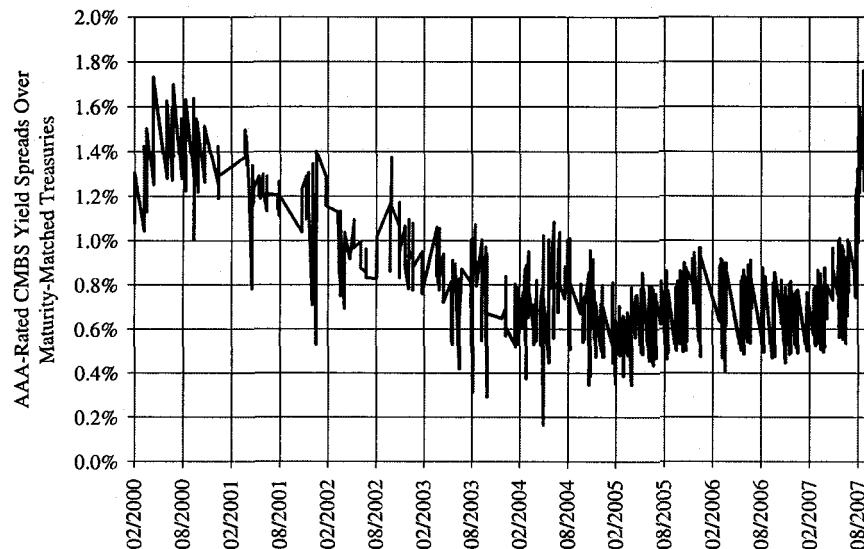
FIGURE 10. CMBS LTVs COMPARED WITH CMBS STRESSED LTVs⁸⁸

It is remarkable that even as risk for CMBS investors was noticeably increasing, the spreads between CMBS tranches and Treasuries narrowed.⁸⁹ In other words, *as risk increased, the risk premium on CMBS fell*. This means that CMBS prices (the risk premium) declined while CMBS volume increased, indicating that the supply curve for the CMBS financing market shifted to outwards (to the right), and that this shift was larger than any shift in the demand curve. In other words, there was excessive demand for CMBS, which meant that there was an oversupply of CMBS financing for CRE, which pushed down CRE financing prices and thus enabled CRE borrowers to take on more debt and thereby may have helped to bid up CRE prices.

⁸⁸ MOODY'S STRUCTURED FIN., US CMBS: CONDUIT LOAN UNDERWRITING CONTINUES TO SLIDE-CREDIT ENHANCEMENT INCREASE LIKELY 2 (Apr. 10, 2007), available at <http://www.mbaa.org/files/Conferences/2007/CREFAAssetAdmin2007/ConduitLoanUnderwriting.pdf>.

⁸⁹ See Figure 11, *infra*.

FIGURE 11. AAA-RATED CMBS YIELD SPREADS OVER MATURITY-MATCHED TREASURIES⁹⁰



In other work, we have documented the same phenomenon with RMBS.⁹¹ With CMBS, as with RMBS, we believe the supply glut that resulted in an increase in MBS volume even as risk premia declined was caused first and foremost by the emergence of CDOs as major buyers of MBS.

Historically, CMBS maintained discipline over underwriting standards in a manner parallel to RMBS. CMBS's reliance on subordinated debt investors to uphold underwriting standards is similar to reliance on Agencies for underwriting standards; in both cases, the underwriting standards are being upheld by a party in the first loss position on the MBS, as the Agencies hold the credit risk on their MBS. In both cases, this discipline was unraveled: for RMBS, it was the market's shift to PLS (and the GSEs resulting competition

⁹⁰ CMBS data comes from the Commercial Mortgage Alert CMBS pricing database, an extensive private subscription data source covering all commercial mortgage securitizations. From the CMA Database, we removed all tranches with the following characteristics: (1) all deals with non-US collateral, (2) all deals or tranches not denominated in dollars, (3) all deals with Ginnie Mae or GSE issuers, (4) all deals with unidentified issuers, (5) all deals priced after 2007, (6) all deals priced before 2000, (7) all deals with adjustable rate notes or mixed fixed/adjustable notes, (8) all deals without ratings by at least one of Moody's, S&P, or Fitch's, (9) all deals other than conduit or fusion (conduit and large loan) deals. This left us with a sample of 1204 AAA tranches. We matched maturities with 1, 2, 3, 5, 7, 10, and 20-year Treasuries as closely as possible and then calculated the spread using the "corporate bond equivalent" coupon measure in the CMA database (converting coupons on CMBS into 360-day semi-annually paid corporate bond equivalents), which is depicted in the graph. *CMBS Database*, *supra* note 48 (authors' calculations).

⁹¹ See Levitin & Wachter, *supra* note 1, at 1203-06.

for market share resulting in the equivalent of an insurer rate war), while for CMBS, it was the dilution and bypassing of the small, skilled cadre of B-piece investors by resecuritization. In both cases, underwriting standards were arbitrated by a shifting of risk to a less disciplined market, and in both cases the emergence of the CDO as a major class of buyer was critical. For RMBS, the CDO enabled the expansion of the PLS market, which undermined the traditional underwriting discipline in the Agency market, while for CMBS, the CDO undermined the traditional underwriting discipline from the B-piece market.

IV. ALTERNATIVE EXPLANATIONS OF THE CMBS BUBBLE

To date no one has proposed an alternative theory of the CMBS bubble, much less the CRE bubble. It is possible, however, to educe alternative theories from existing work, particularly that of real estate economists Timothy J. Riddiough and Jun Zhu, Andrew Cohen, and Richard Stanton and Nancy Wallace.⁹² We emphasize that none of these authors present their work as explaining either the CMBS bubble, and, therefore, we are not arguing with their work. Instead, from their work it is possible to extrapolate theories of the CMBS bubble.

Our point here is merely to show that such extrapolation is unwarranted. Stanton & Wallace's work points to important factors that *contributed* to the CMBS bubble, but these factors alone were insufficient to create the bubble. They were at most amplifying factors, rather than driving force behind the bubble.

A. Credit Rating Inflation

Riddiough & Zhu, Stanton & Wallace, and Cohen have all commented on declining CMBS subordination relative to ratings support.⁹³ Subordination is the primary method of credit support in CMBS. From 1996 onwards the level of subordination in CMBS has been declining relative to credit rating,⁹⁴ a phenomenon these authors ascribe to competition among ratings agencies for ratings business. Stanton & Wallace, in particular, argue that by 2005 the subordination levels had fallen too far to be justified, and that had subordination levels stayed steady since 2000, there would have been no losses to senior bonds in most CMBS deals.⁹⁵ From this, one might reasonably extrapolate that debased ratings resulted in an underpricing of risk in

⁹² See Riddiough & Zhu, *supra* note 21; Stanton & Wallace, *supra* note 22; Cohen, *supra* note 23.

⁹³ See Riddiough & Zhu, *supra* note 21; Stanton & Wallace, *supra* note 22; Cohen, *supra* note 23.

⁹⁴ See Stanton & Wallace, *supra* note 22, at 3-4 (figure 1).

⁹⁵ *Id.* at 3, 5.

CMBS (from investors who rely on ratings), resulting in a glut of financing for CMBS.

It is hard, however, to attribute the CMBS bubble to ratings inflation. For starters, the decline in subordination levels required begins in 1996, nearly a decade before the CMBS bubble emerges.⁹⁶ There were no sudden declines in the subordination levels, but rather a steady descent from 1996 to 2005 at which point they remained largely static.⁹⁷ Thus, it is hard to see a temporal connection between ratings inflation and the CMBS bubble.

Ratings inflation may nevertheless have contributed to the CMBS bubble. Inflated ratings based on declining subordination requirements meant that it was possible to produce even more investment-grade CMBS with less junk-grade CMBS by-product. As the non-investment-grade CMBS are the harder securities to sell, the decreasing ratio of junk-grade to investment-grade CMBS facilitated CRE securitization.

Nonetheless, it was still necessary to sell the lower-rated, junior securities. If the junior junk tranches of a securitization cannot be sold, the economics of the deal simply do not work. If \$500 million of CRE debt is securitized, it is necessary to sell \$500 million in CMBS.⁹⁸ The interest flows on the CRE will be reallocated according to tranching to compensate for the relative credit risk, but the principal amount of the CMBS will closely or exactly match that of the securitized CRE. Investors will not pay over face value for CMBS, or if they do, it will be only marginally over face value, as their upside is capped with a fixed-income investment. Therefore, unless every tranche of a CMBS deal can be sold, the economics of CRE securitization do not work. In this regard, securitization is much like hog farming: it is only profitable to raise hogs (or so we are told) unless you can sell the bacon, chops, and hams *as well as* the snouts, tails, trotters, and unmentionables.⁹⁹

Lower subordination requirements meant that in any particular CMBS deal the *relative* size of the junior tranches to the seniors was limited. But as Figure 7, above, shows, the absolute size of CMBS deals and of the CMBS market was expanding at an incredible rate during the CRE bubble period. The net effect was that even with debased ratings, it was necessary for CMBS deal sponsors to place in *absolute* terms many more dollars of junior CMBS tranches. The key question, then, is how they did it. As we have seen,

⁹⁶ See Stanton & Wallace, *supra* note 22, at 4 (figure 1).

⁹⁷ See *id.*

⁹⁸ If the CMBS are sold with an original issue discount or are overcollateralized, it is possible to sell CMBS for something less than the aggregate face value of the CRE debt that has been securitized.

⁹⁹ We owe this analogy to financial commentator Yves Smith (Susan Webber) who has explained, "CDOs were originally devised as a way to dress up these junior layers [of MBS] and make them palatable to a wider range of investors, just as unwanted piggie bits get ground up with a little bit of the better cuts and a lot of spices and turned into sausage." YVES SMITH, *HOW UNENLIGHTENED SELF INTEREST UNDERMINED DEMOCRACY AND CORRUPTED CAPITALISM* 247 (2010).

the answer was the CRE CDO, which purchased the financial equivalent snouts, tails, trotters, and unmentionables, ground them up with some spices into the financial slurry known as a CDO and resold tranches of this slurry as premium sausage (with the unsellable parts resecuritized yet again as CDOs). Moreover, because the CRE CDOs did not exercise their kickout rights as B-piece holders as vigorously as traditional B-piece investors, the overall quality "hog" became a degenerate, ignoble beast, thereby reducing the quality of both the "bacon" and the "sausage."

B. Regulatory Capital Arbitrage

Stanton & Wallace also note that in 2002 the federal bank regulators changed their risk-based capital weights for CMBS held as long-term investments and that this encouraged federally-regulated banks to securitize commercial real estate and hold highly-rated CMBS tranches instead of whole loans.¹⁰⁰ While Stanton & Wallace do not claim that the change in regulatory capital requirements was responsible for the CMBS bubble, they argue that these changes could have reduced "the incentive for rating agencies to acquire information, in turn leading to rating inflation."¹⁰¹

We agree, but again do not think that regulatory capital arbitrage alone explains the CMBS bubble. Instead, we believe that the changes in regulatory capital requirements made CDOs all the more indispensable as market participants because without the CDOs the banks could not capitalize on the change in regulatory capital requirements.

All banks are required to maintain a minimum ratio of total capital (after deductions) to risk-based assets of 8%.¹⁰² Prior to 2002, both commercial real estate loans and CMBS of any rating had 100% risk-weightings for regulatory capital purposes.¹⁰³ This meant that for every \$100 of CRE or CMBS, banks had to hold roughly \$8 in regulatory capital, thereby limiting the banks' leverage, by implying a maximum of \$92 in liabilities for this \$8 in capital.

In 2002, however, the federal bank regulators changed their risk-based capital treatment of CMBS in the U.S. implementation of the 1988 Basel I

¹⁰⁰ Stanton & Wallace, *supra* note 22, at 36-39.

¹⁰¹ *Id.* at 36.

¹⁰² All citations provided are for the Office of the Comptroller of the Currency and thus national banks. There are equivalent regulations for the Federal Reserve, 12 C.F.R. §§ 208, app. A, t. 1, 225, app. A; FDIC, 12 C.F.R. § 325.3, 567, and the Office of Thrift Supervision, 12 C.F.R. § 567.2.

See 12 U.S.C. § 3907(a)(2) (2006) (authorizing the OCC to set capital requirements for national banks); 12 C.F.R. § 3.6(a) (2001) (requiring risk-based capital requirements for national banks); 12 C.F.R. § 3, app. A § 1(b)(1) (2001) (8% ratio mandated after Dec. 31, 1992).

¹⁰³ 12 C.F.R. §§ 3, app. A 4(a) (100% risk-weighting for all assets without specified risk-weightings); 4(a)(4)(iii) (100% risk-weighting for any subordinated interests in securitizations) (2001).

Capital Accord.¹⁰⁴ Instead of 100% risk weighting, CMBS received different risk-weightings depending on their credit rating.¹⁰⁵ Thus, AAA-rated CMBS received a 20% risk-weighting (equivalent to the risk-weighting of GSE-securities),¹⁰⁶ AA-rated CMBS received a 50% risk-weighting (equivalent to the risk-weighting of whole-loan first-lien residential mortgages),¹⁰⁷ with BBB-and lower CMBS retaining a 100% risk-weighting.¹⁰⁸

This change made AAA- and AA-rated CMBS relatively more attractive investments for US banks, as \$100.00 in AAA-rated CMBS now only required \$1.60 in regulatory capital, instead of \$8.00, thereby enabling greater leverage (and potentially higher returns for the banks' equity holders). Similarly \$100.00 in AA-rated CMBS now only required \$4.00 in regulatory capital instead of \$8.00. Stanton & Wallace calculate that by 2007, this change in risk-weightings was saving US banks some \$2.29 billion in regulatory capital.¹⁰⁹

The 2002 changes not only *reduced* the risk-based capital requirements for some CMBS, but they *increased* the risk-based capital requirements for other CMBS. The 2002 changes increased the risk-based capital requirements for BB-rated CMBS, from 100% to 200%, meaning that banks would have to hold \$16.00 in capital for every \$100.00 in BB-rated CMBS.¹¹⁰ CMBS with a rating of B or lower were subjected to a dollar-for-dollar capital requirement,¹¹¹ meaning \$100 of CMBS required \$100 of risk-based capital; no leverage whatsoever was permitted on such investments.

The importance of these changes is that although the changes made highly-rated CMBS more attractive to banks, the changes made lower-rated CMBS much less attractive to banks. And, as we have seen, securitization is

¹⁰⁴ See Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Capital Treatment of Recourse, Direct Credit Substitutes and Residual Interests in Asset Securitizations, 66 Fed. Reg. 59614 (Nov. 29, 2001). On the Basel capital accords generally, see DANIEL K. TARULLO, BANKING ON BASEL: THE FUTURE OF INTERNATIONAL FINANCIAL REGULATION (2008). The 2002 change was a U.S.-specific implementation change, and not a change in the Basel Capital Accord.

¹⁰⁵ 12 C.F.R. § 3, app. A, § 4(d)(1), t. B. (traded positions), 4(d)(2) (non-traded positions) (2002).

¹⁰⁶ 12 C.F.R. § 3, app. A § 3(a)(2)(vi) (20% risk-weighting for GSE securities); 3(a)(2)(vii) (20% risk-weighting for GSE-guaranteed securities, for example, MBS) (2002).

¹⁰⁷ 12 C.F.R. § 3, app. A § (a)(3)(iv) (50% risk-weighting for first-lien single family mortgages conforming to various underwriting requirements); 3(a)(3)(v) (50% risk weighting for first-lien multifamily mortgages conforming to various underwriting requirements); 3(a)(3)(vi) (50% risk-weighting for non-tranched, that is, pass-through, private-label MBS if the underlying mortgages would qualify for 50% risk-weighting) (2012).

¹⁰⁸ 12 C.F.R. § 3, app. A, § 4(d)(1), tbl. B. (traded positions), 4(d)(2) (non-traded positions) (2012).

¹⁰⁹ Stanton & Wallace, *supra* note 22, at 41.

¹¹⁰ 12 C.F.R. § 3, app. A § 4(d)(1), tbl. B. (traded positions receive 200% risk-weighting for BB-rating), 4(d)(2) (non-traded positions treated as traded positions); 4(a)(12) (defining "residual interest" to include securitization interests in which the bank's credit risk "exceeds a *pro rata* share of th[e] bank's claim on the [securitized] asset, whether through subordination provisions or other credit enhancement techniques . . .") (2012).

¹¹¹ 12 C.F.R. § 3, app. A § 4(f)(3) (2012) (dollar-for-dollar risk-weighting for all other residual interests not otherwise provided for in regulations).

simply not economical unless both the senior and junior tranches of a deal can be sold. Making it easier to sell the senior tranches at the expense of restricting the market in junior tranches hardly facilitates securitization, particularly as there is normally a much larger market for investment-grade securities than non-investment-grade securities. In short, it is hard to attribute the CMBS bubble to changes in regulatory capital risk-based weighting requirements.¹¹²

V. THE REBIRTH OF THE CMBS MARKET

The CMBS market has not returned to its pre-crisis vitality. But compared to the RMBS market, CMBS has witnessed a cautious reemergence.¹¹³ From September 2008 through December 2012, there were only nine registered domestic private-label RMBS deals based on new collateral with a total issuance volume of \$2.83 billion, all from a single shelf.¹¹⁴ In contrast, there have been 463 domestic CMBS deals for a total issuance of \$233.9 billion, despite CMBS having traditionally been a much smaller market than RMBS.¹¹⁵ Nonetheless, it is important not to overstate the revival of the CMBS market. Most of the post-crisis CMBS deals—298 to be specific—have been government or GSE deals, some of which include sharing of credit risk with private investors.¹¹⁶ Of the 165 private CMBS deals, 57 have been a type of resecuritization known as a “re-REMIC,” which is used primarily as a regulatory capital arbitrage device for existing CMBS, rather than for the financing of new CRE loans.¹¹⁷

¹¹² As with ratings debasement, changes in risk-based capital regulations certainly accelerated the bubble, but were themselves insufficient to create the CMBS, much less the CRE bubble. First, the change in banks' risk-based capital regulations applied to *all* securitizations, not just CMBS. Thus, the impact of the regulatory capital change was to make investment in highly-rated tranches of all asset-backed securities more appealing to banks, rather than specific to CMBS. Second, \$3.54 billion in regulatory capital savings is very little when spread out over the whole US banking industry. In 2007, there was \$420 billion in Tier 1 regulatory capital among banks that held any CMBS. *FDIC Statistics on Depository Institutions*, FED. DEPOSIT INSURANCE CORP., <http://www2.fdic.gov/SDI/index.asp>. It is hard to imagine this small of a change in regulatory capital, especially when spread out over several institutions, being enough to fuel a major growth in the CMBS market.

¹¹³ See Figures 3 and 4, *supra*.

¹¹⁴ *ABS Database*, ASSET-BACKED ALERT, http://www.abalert.com/about_abs.php (last visited Feb. 8, 2013). There were 336 resecuritizations of mortgages (re-REMICs) with volume of \$140.5 billion, as well as another 44 privately-placed deals totaling \$12.6 billion covering manufactured housing, non-performing loans, and regular mortgages. *Id.* See also Kerri Panchuk, *Redwood Trust plans nearly \$1 billion in private RMBS deals*, HOUSINGWIRE, (May 6, 2011), <http://www.housingwire.com/2011/05/06/redwood-trust-plans-nearly-1-billion-in-private-rmbs-deals>; Steve Bergsman, *Come Back, Private-Label RMBS!* MORTGAGEORB (Nov. 30, 2011), http://www.mortgageorb.com/e107_plugins/content/content.php?content.10356.

¹¹⁵ See *CMBS Database*, *supra* note 48 (authors' calculations).

¹¹⁶ *Id.* The breakdown is 154 Ginnie Mae deals, 75 Freddie Mac deals, 61 Fannie Mae deals, 7 FDIC deals, and one NCUA deal.

¹¹⁷ *Id.* Moreover, two non-re-REMIC deals have been entirely or majority multifamily deals. *Id.*

Put differently, there have only been 109 regular private CMBS deals between September 2008 and the end of 2012, with a deal volume of \$105.8 billion.¹¹⁸ (Given the presence of credit risk-sharing deals such as Freddie Mac's K-Series,¹¹⁹ the real amount of private risk-capital that has entered the CMBS market post-crisis is somewhat larger.) To be sure, the private CMBS market picked up strength in 2012, with 65 deals (only 6 of which were re-REMICs), accounting for \$47.9 billion.¹²⁰ While this is a shadow of the former non-government/non-agency CMBS market, which peaked at \$231 billion in *annual* issuance in 2007,¹²¹ it is two orders of magnitude larger than the post-crisis non-government/non-agency RMBS market.

The prevalence of re-REMICs in the post-crisis CMBS market is not an indication of the market's strength. Re-REMICs are similar to CDOs in that they are resecuritization, but whereas CMBS CDOs were typically formed using newly issued CMBS as assets and thus provided part of the financing for CMBS and ultimately CRE loans, re-REMICs do not put new capital into the CRE market. Instead, re-REMICs repackage seasoned CMBS and CDO tranches, particularly those that have been downgraded, so as to enable regulatory capital relief for the banks and insurance companies holding the CMBS.¹²²

Lower rated MBS carry higher regulatory capital charges. By resecuritizing downgraded MBS, banks and insurance companies (subject to National Association of Insurance Commissioners (NAIC) capital regulation) can lower the regulatory capital charge on the senior tranches of the resecuritization, and can try to sell the lower rated tranches to high-yield investors. To wit, a BB-rated CMBS would have a 350% risk-weight under the 2004 Basel II capital framework¹²³ (in effect since late 2008 in the United States), but it could be resecuritized into a AAA-rated tranche representing 70% of the original security, with a 28% risk-weighting, a BB-tranche risk weighted at less than 350% and a junk tranche.¹²⁴ If a bank held onto the senior tranche and sold the other two tranches, it would significantly reduce its regulatory capital requirement and could thus recapitalize without having to raise equity capital and dilute existing shareholders. Insurance companies can similarly arbitrage NAIC asset level designations.

¹¹⁸ See *CMBS Database*, *supra* note 48 (authors' calculations).

¹¹⁹ See *Multifamily K Series Certificates*, *supra* note 7.

¹²⁰ See *CMBS Database*, *supra* note 48 (authors' calculations).

¹²¹ *Id.*

¹²² Miles Weiss & David Mildenberg, *Bank of America Re-Remics Cut Mortgage Debt as Basel Rules Loom*, BLOOMBERG, (Oct. 14, 2010), <http://www.bloomberg.com/news/2010-10-14/bank-of-america-re-remics-reduce-mortgage-debt-as-basel-capital-rules-loom.html>.

¹²³ BANK FOR INT'L SETTLEMENTS [BIS]. BASEL COMM. ON BANKING SUPERVISION, INTERNATIONAL CONVERGENCE OF CAPITAL MEASUREMENT AND CAPITAL STANDARD: A REVISED FRAMEWORK ¶ 567 (2004).

¹²⁴ Joseph Rosta, *Re-REMICs Redux*, AM. BANKER (Dec. 1, 2009), http://www.americanbanker.com/magazine/119_12/re-remics-redux-1004225-1.html.

While it is possible that the regulatory capital relief from re-REMICs frees up funds at banks and insurance companies that are then used for new CRE lending, the connection is much less direct than with CMBS CDOs. Other factors may also be driving the use of re-REMICs. It could be a pre-emptive defensive move against further ratings downgrades, it could bear tax-advantages, it could be a cost-efficient funding strategy, it could be an economic trading arbitrage, or it could simply make AAA-rated bonds more saleable.¹²⁵

The emergence of re-REMICs illustrates structured finance's reluctance to let any value go to waste. While the CMBS market has rebounded in a way the RMBS market has not, the CMBS market is still a shell of its former self and is now primarily a government-dominated market focused on the securitization of multi-family housing units.¹²⁶

Still, it is worth considering why the CMBS market revived, while the RMBS market remains moribund. Several reasons emerge. First, CMBS has better checks and balances to protect investors,¹²⁷ including a better diligence process for underwriting. Part of this is simply that a different level of diligence is feasible when dealing with one or two or even 300 properties, rather than 7,000, but part is also the particular diligence rights awarded to the B-piece investor.

Second, rents are what support CRE cash flows, and the rents on CRE properties continue to be paid even if the owner of the CRE defaults on its mortgage.¹²⁸ With RRE, the cash flows come directly from the mortgagor. Therefore, if the mortgagor defaults, the property often does not produce cash flows after default.¹²⁹ With CRE, however, the cash flows from the property continue (albeit at potentially reduced levels) even if the mortgagor is in default.¹³⁰ This is not to say that loss severities on CRE defaults cannot

¹²⁵ See MARTY ROSENBLATT, DELOITTE & TOUCHE LLP, *SPEAKING OF SECURITIZATION: THE RE-REMIC PHENOMENON 1* (2009), available at http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_fsi_Sec_RE_Speaking%20of%20Securitization-June%202009.pdf.

¹²⁶ See *CMBS Database*, *supra* note 48 (authors' calculations).

¹²⁷ Robert A. Brown, *Financial Reform and the Subsidization of Sophisticated Investors' Ignorance in Securitization Markets*, 7 N.Y.U. J.L. & Bus. 105 (2010) (arguing that CMBS deal structures provided CMBS investors significantly greater protections than RMBS investors and that CMBS investors have fared better as a result).

¹²⁸ See *id.* at 133.

¹²⁹ There are exceptions to this situation, to be sure. First, the mortgagor may cure the default and then remain current on payments. Second, the mortgagor may continue to pay in delinquency, such as being a "rolling 30" (always 30 days delinquent) or a "rolling 60" (always 60 days delinquent). After 90 days of delinquency on a payment, however, foreclosure actions are typically commenced. While some borrowers will make payments even after a foreclosure is commenced, they will often be refused lest acceptance be interpreted as agreement to forbear. Even if the borrower ceases to make payments, servicers of securitized mortgages have an obligation to advance the payments to the investors out of their own funds. These advances are recoverable, but without interest, and the obligation to advance is only for advances the recovery of which is reasonably foreseeable.

¹³⁰ Tenants can be directed to pay their rents to the mortgagee (now the new owner) or simple to a lockbox whose control can be transferred.

be severe, but a default on CRE does not always mean the end of cash flows the way a RRE foreclosure does.¹³¹

Third, the CRE foreclosure process has not ground to a halt the way it has for RRE in many states. In part this is because states' efforts to slow foreclosures through procedural hurdles like mandatory mediation do not apply to CRE, but it is due in larger part to the relative absence of documentation and servicing issues in CMBS. CMBS has not had a "robo-signing" scandal and resulting federal and state investigations and litigation. Relatedly, because CMBS boasts superior workout mechanisms, there has not been as much pressure on the system through foreclosures. It is hard to imagine a major revitalization of the RMBS market until and unless servicing issues, among others, are resolved; investors have learned that servicing is an important determinant of loss severity given default. In CMBS, the special servicer structure helps ensure better incentive alignment between servicers and investors when dealing with defaulted loans.

Finally, there is a cohort of savvy credit risk investors for CMBS that has never really existed for RMBS. The RMBS "B-piece" was traditionally either retained or resecutitized. Indeed, no one speaks of RMBS as having a "B-piece" because the concept does not exist in practice. Accordingly, the real (that is, non-CDO) RMBS investor base as a whole did not understand itself as taking on first-loss credit risk.¹³² To the extent that a body of credit risk investors exists for RMBS, they appear to be substantially smaller than for CMBS, not least because RMBS offers them less control than CMBS.

Better underwriting diligence, better servicing, and the participation of a body of sophisticated credit risk investors all seem to be factors explaining why CMBS has rebounded to a greater degree than RMBS. Nonetheless, the CMBS market is still much smaller and differently composed than before financial collapse in 2008, and its prospects for rapid expansion seem limited for the near future because the CRE market will continue to lag absent economic growth.

¹³¹ Adam J. Levitin & Tara Twomey, *Mortgage Servicing*, 28 YALE J. ON REG. 1 (2011); Larry Cordell & Adam J. Levitin, *What RMBS Servicing Can Learn From CMBS Servicing* (Geo. L. & Econ. Research Paper No. 11-01, Aug. 2011), available at <http://ssrn.com/abstract=1324023>. The CMBS special servicer structure is far from perfect, however; there can be major conflicts between CMBS special servicers and CMBS investors, particularly investors in senior tranches. See Brent W. Ambrose, Anthony B. Sanders, & Abdullah Yavas, CMBS Special Servicers and Adverse Selection in Commercial Mortgage Markets: Theory and Evidence (Feb. 2, 2010) (unpublished manuscript), available at <http://merage.uci.edu/ResearchAndCenters/CRE/Resources/Documents/02%20-%20Sanders-CMBS%20Servicing.pdf>; Yingjin Hila Gan & Christopher Mayer, *Agency Conflicts, Asset Substitution, and Securitization* (Nat'l Bureau of Econ. Research, Working Paper No. 12359, 2006), available at <http://www.nber.org/papers/w12359>.

¹³² Levitin & Wachter, *supra* note 1. There are some important exceptions. NIMS investors were exposed to credit risk, but they were primarily investing in a binary prepayment gamble. Mezzanine investors included some hedge funds, but they thought they were well protected from credit risk by the junior tranches.

CONCLUSION

The CMBS and CRE bubbles have remained largely neglected in the scholarly literature. In this Article we have attempted to explain the CMBS and the CRE bubbles and how they relate to the RRE bubble. The comparison between the CRE and RRE bubbles is a critical one for understanding what did *not* cause the RRE bubble. The CRE bubble presents a serious challenge to theories of the RRE bubble that implicate GSE affordable housing goals or the Community Reinvestment Act (CRA) of 1977 as the drivers of the RRE bubble.¹³³

It is hard to fathom how the GSE's statutory affordable housing goals,¹³⁴ which set targets for GSE loan purchases and investments in order "to facilitate credit access and homeownership among lower-income and minority households,"¹³⁵ could only have affected anything other than multi-family housing, as the GSEs have no involvement with industrial, retail, office, or lodging properties. Yet the CRE bubble was hardly limited to multi-family housing.

Similarly, the CRA has no bearing on CRE.¹³⁶ Claims about the CRA's role in the housing bubble have been debunked elsewhere based on other

¹³³ For such theories, see generally PETER J. WALLISON, FIN. CRISIS INQUIRY COMM'N, THE FINANCIAL CRISIS INQUIRY REPORT, DISSENTING STATEMENT 444 (2011) ("[T]he sine qua non of the financial crisis was U.S. government housing policy, which led to the creation of 27 million subprime and other risky loans—half of all mortgages in the United States—which were ready to default as soon as the massive 1997–2007 housing bubble began to deflate. If the U.S. government had not chosen this policy path—fostering the growth of a bubble of unprecedented size and an equally unprecedented number of weak and high risk residential mortgages—the great financial crisis of 2008 would never have occurred."); Edward Pinto, *Acorn and the Housing Bubble*, WALL ST. J., Nov. 13, 2009, at A23; Peter J. Wallison, *The True Origins of the Financial Crisis*, AM. SPECTATOR, Feb. 2009, at 22; Peter J. Wallison, *Cause and Effect: Government Policies and the Financial Crisis*, AM. ENTER. INST. FOR PUB. POL'Y RESEARCH (November 2008), http://www.aei.org/files/2008/11/25/20081203_1123724_NovFSOg.pdf; THOMAS SOWELL, THE HOUSING BOOM AND BUST (2009).

¹³⁴ Housing and Community Development Act of 1992 §§ 1331–34, 12 U.S.C. §§ 4561–64 (2006). From 1993 to 2008, the affordable housing goals were supervised by the Secretary of Housing and Urban Development (HUD); starting in 2010, they came under the supervision of the Federal Housing Finance Agency (FHFA). Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289 § 1128(b), 122 Stat. 2654, 2696 (transferring authority from HUD to FHFA). The affordable housing goals are enforced by the GSE regulator, currently the FHFA, formerly OFHEO. If a GSE fails to meet the affordable housing goals and does not present and pursue an acceptable remedial plan, monetary penalties and injunctive relief are available to the regulator. 12 U.S.C. § 4566(c)(1) (Supp. 111 2010). The housing goals consist of three general measures: low-to-moderate income, special affordable, and underserved areas, as well as special subgoals for special affordable multifamily and home purchase (as opposed to refinancing). 12 U.S.C. §§ 4562–65 (Supp. 111 2010). The goals are measured as the ratio of qualifying mortgages financed to total mortgages financed, with certain mortgages excluded.

¹³⁵ Xudong An & Raphael W. Bostic, *GSE Activity, FHA Feedback, and Implications for the Efficacy of the Affordable Housing Goals*, 36 J. REAL EST. FIN. & ECON. 207, 207–08 (2008).

¹³⁶ The Community Reinvestment Act (CRA) was passed in 1977 in response to concerns about banks not offering financial services in minority or low-income neighborhoods. Michael S. Barr, *Credit Where It Counts: The Community Reinvestment Act and Its Critics*, 80 N.Y.U.

evidence,¹³⁷ and the existence of the parallel CRE bubble indicates that the CRA was not necessary for the emergence of a bubble. No CRA was necessary for the CRE bubble to emerge.

The key point about the CMBS bubble is that it grew in an entirely private environment. The CRE bubble was associated with the expansion of CMBS, the CMBS price bubble, and a shift in the institutional make-up of CMBS financing. The expansion of CMBS was part of an overall increase in the supply of credit in the real estate sector. The causes of the oversupply are multifold, including the global savings imbalance (or "global savings glut" in Federal Reserve Chairman Ben Bernanke's parlance¹³⁸) that created an insatiable demand for AAA-rated assets of any sort.¹³⁹ AAA-rated assets could only be manufactured en masse via structured finance, that is, securitization. At a time when only a dozen public companies and a handful of

L.Rev. 513, 516–17 (2005). The CRA encourages covered financial institutions to serve these communities by making the individual bank's service a factor that regulators must consider in determining whether to approve the institution's mergers with and acquisitions of other depository institutions, as well as whether to approve the expansion of bank holding companies into other types of financial activities. See 12 U.S.C. § 1831u(b)(3) (2006) (CRA requirement for interstate mergers); see also 12 U.S.C. § 1831y(a) (2006) (CRA Sunshine Requirements); 12 U.S.C. § 1843(l)(2) (2006) (CRA requirement for financial subsidiaries engaging in expanded financial activities). The CRA does mandate any lending, and charitable contributions, such as donations to soup kitchens, to qualify for CRA credit. [Needs cite] It is difficult, however, for CRE investment to qualify for CRA credit, because even if the property is in a bank's CRA geographic assessment area, few, if any CRE loans are made to low-to-moderate income borrowers. CRE investment is, by its very capital-intensive nature, not an activity for the low-to-moderate income.

¹³⁷ See, e.g., FIN. CRISIS INQUIRY COMM'N, THE COMMUNITY REINVESTMENT ACT AND THE MORTGAGE CRISIS 6 (2010) (preliminary staff report), available at http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/2010-0407-Preliminary_Staff_Report_-_CRA_and_the_Mortgage_Crisis.pdf; see also Memorandum from Glenn Canner, Senior Adviser, Div. of Research and Statistics, Fed. Reserve Bd., & Neil Bhutta, Economist, Fin. Structure Section, Div. of Research and Statistics, Fed. Reserve Bd., to Sandra Braunstein, Dir., Consumer and Cmty. Affairs Div., Fed. Reserve Bd. 3 (Nov. 21, 2008), http://www.federalreserve.gov/newsevents/speech/20081203_analysis.pdf; Neil Bhutta & Glenn B. Canner, *Did the CRA Cause the Mortgage Meltdown?*, COMMUNITY DIVIDEND (Mar. 1, 2009), http://www.minneapolisfed.org/research/pub_display.cfm?id=4136; see also Ellen Seidman, *No, Larry, CRA Didn't Cause the Sub-Prime Mess* (Apr. 15, 2008, 9:55 AM), <http://www.newamerica.net/blog/asset-building/2008/no-larry-cra-didn-t-cause-sub-prime-mess-3210>; Elizabeth Laderman & Carolina Reid, FED. RESERVE BANK OF S.F., *CRA Lending During the Subprime Meltdown*, in REVISITING THE CRA: PERSPECTIVES ON THE FUTURE OF THE COMMUNITY REINVESTMENT ACT 115, 124 (2009) (published by the Federal Reserve Banks of Boston and San Francisco), http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf (finding that CRA-subject institutions were less likely to make subprime loans in California and that subprime loans made by CRA-subject institutions in CRA assessment areas outperformed these institutions' subprime loans made outside CRA-assessment areas).

¹³⁸ See Ben S. Bernanke et al., *International Capital Flows and the Returns to Safe Assets in the United States, 2003–2007* (Feb. 2011), FED. RESERVE SYS., <http://www.federalreserve.gov/pubs/ifdp/2011/1014/default.htm>.

¹³⁹ See Gary B. Gorton, *Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007* (May 11–13, 2009) (unpublished manuscript), <http://www.frbatlanta.org/news/Conferen/09fmc/gorton.pdf>.

sovereign issuers bore AAA ratings, over 60,000 structured securities were rated AAA.¹⁴⁰

The critical lesson from the CMBS bubble is that the creation of AAA-rated structured securities has an inevitable non-investment grade by-product (the B-piece), and the deal economics simply do not work unless the B-piece can be sold. Therefore, the essential, *but for* factor in the CMBS bubble was the rise of CDOs, which changed the B-piece market and loosened the traditional constraints on credit risk. The expansion of the B-piece market via the CDOs enabled the massive "leverage" of expanded investment in AAA-rated CMBS and credit in the CRE market. While the resecuritization game could only be repeated a couple of times, it was sufficient to fuel the CMBS bubble for a few years, which likely contributed to the CRE price bubble.

The CMBS and CRE bubbles show that market discipline is not such an easy thing to come by.¹⁴¹ The market can serve as a regulator, but for market discipline to work, risk needs to be in the hands of those who understand it.¹⁴²

¹⁴⁰ See Lloyd Blankfein, *Do Not Destroy the Essential Catalyst of Risk*, FINANCIAL TIMES, Feb. 8, 2009, at 7 ("In January 2008, there were 12 triple A-rated companies in the world. At the same time, there were 64,000 structured finance instruments . . . rated triple A.").

¹⁴¹ This is especially true in a market in which participants can be manufactured to create demand, as in the case of CDOs. See William W. Bratton Jr. & Adam J. Levitin, *A Transactional Genealogy of Scandal: From Michael Milken to Enron to Goldman Sachs*, 86 S. CAL. L. REV. (forthcoming 2013).

¹⁴² See Anat Admati, Peter Conti-Brown, & Paul Pfleiderer, *Liability Holding Companies*, 59 UCLA L. REV. 852 (2012) (discussing expertise in liability management).

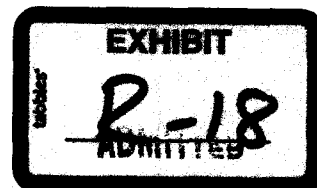
January 29, 2014

Mr. Michael Blake
9900 N. 52nd Street
Paradise Valley, AZ 85253

Dear Mr. Blake,

Prior to your registration with your home state, Arizona, and thereafter the commencement of your acting as an Investment Advisor Representative (IAR) for Mid Atlantic Financial Management, Inc. (MAFM), the firm is implementing heightened supervision over your activities due to the disciplinary action by FINRA related to your outside business activities. The initial duration of the enhanced supervision will be the later of two years or until such time that all enforcement actions have been resolved. You must abide by the following instructions:

1. You must immediately notify the Compliance Department if you are:
 - a) The subject of any investigation or inquiry by any government agency or self-regulatory body.
 - b) Requested to formally or informally testify before or provide documents to any regulator.
 - c) A defendant or respondent in any litigation, proceeding or arbitration alleging violation of any rule or regulation of any regulator.
 - d) The subject of any bankruptcy or contempt proceeding.
 - e) The subject of any oral or written complaint by a client or any claim for damages filed by a client.
 - f) The subject of any arrest, summons, arraignment, guilty plea to any criminal offense (other than a minor traffic violation).
 - g) The subject of any unresolved matters pending with the IRS or other taxing authorities.
 - h) Notified of any changes that would require an update to your disclosures.
2. Obtain prior written approval for any beneficial ownership in any securities in a limited offering or private placement.
3. Provide an annual holdings report containing a transactions report for all accounts in which any securities were held for the direct or indirect benefit of you and your immediate family.
4. Obtain prior written approval to serve as an officer or on the board of directors of any publicly or privately traded company.
5. Respond to all requests from Mid Atlantic in a timely manner, no later than two working days unless a longer time is needed and agreed to by MAFM.
6. Submit for pre-approval any business activity outside the scope of your association with MAFM.
7. Submit an annual disclosure in the form provided by MAFM regarding your activities and investments.



Additionally, you are restricted during the course of your association with MAFM or any of its associated companies from participation in any private placement sales activity.

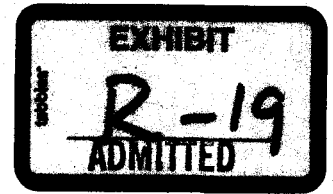
Please sign and return this letter acknowledging your acceptance of the above terms.

Michael Blake

Date



Print



ARTICLE I DEFINITIONS

When used in these By-Laws, unless the context otherwise requires, the term:

(a) "Act" means the Securities Exchange Act of 1934, as amended;

(b) "bank" means (1) a banking institution organized under the laws of the United States, (2) a member bank of the Federal Reserve System, (3) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under the authority of the Comptroller of the Currency pursuant to the first section of Public Law 87-722 (12 U.S.C. § 92a), and which is supervised and examined by a State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of the Act, and (4) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (1), (2), or (3) of this subsection;

(c) "Board" means the Board of Governors of the Corporation;

(d) "branch office" means an office defined as a branch office in the Rules of the Corporation;

(e) "broker" means any individual, corporation, partnership, association, joint stock company, business trust, unincorporated organization, or other legal entity engaged in the business of effecting transactions in securities for the account of others, but does not include a bank;

(f) "Closing" means the closing of the consolidation of certain member firm regulatory functions of NYSE Regulation, Inc. and the Corporation;

(g) "Commission" means the Securities and Exchange Commission;

(h) "controlling" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting stock, by contract or otherwise. A person who is the owner of 20% or more of the outstanding voting stock of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary. Notwithstanding the foregoing, a presumption of control shall not apply where such person holds voting stock, in good faith, as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity;

(i) "Corporation" means the National Association of Securities Dealers, Inc. or any future name of this entity;

(j) "day" means calendar day;

(k) "dealer" means any individual, corporation, partnership, association, joint stock company, business trust, unincorporated organization, or other legal entity engaged in the business of buying and selling securities for such individual's or entity's own account, through a broker or otherwise, but does not include a bank, or any person insofar as such person buys or sells securities for such person's own account, either individually or in some fiduciary capacity, but not as part of a regular business;

(l) "Delegation Plan" means the "Plan of Allocation and Delegation of Functions by NASD to Subsidiaries" as approved by the Commission, and as amended from time to time;

(m) "district" means a district established by the NASD Regulation Board pursuant to the NASD Regulation By-Laws;

(n) "Floor Member Governor" means a member of the Board appointed as such who is a person associated with a member (or a firm in the process of becoming a member) which is a specialist or floor broker on the New York Stock Exchange trading floor;

(o) "government securities broker" shall have the same meaning as in Section 3(a)(43) of the Act except that it shall not

include financial institutions as defined in Section 3(a)(46) of the Act;

(p) "government securities dealer" shall have the same meaning as in Section 3(a)(44) of the Act except that it shall not include financial institutions as defined in Section 3(a)(46) of the Act;

(q) "Governor" means a member of the Board;

(r) "Independent Dealer/Insurance Affiliate Governor" means a member of the Board appointed as such who is a person associated with a member which is an independent contractor financial planning member firm or an insurance company, or an affiliate of such a member;

(s) "Industry Director" means a Director of the NASD Regulation Board or NASD Dispute Resolution Board (excluding the Presidents) who: (1) is or has served in the prior year as an officer, director (other than as an independent director), employee or controlling person of a broker or dealer, or (2) has a consulting or employment relationship with or provides professional services to a self regulatory organization registered under the Act, or has had any such relationship or provided any such services at any time within the prior year;

(t) "Industry Governor" or "Industry committee member" means the Floor Member Governor, the Independent Dealer/Insurance Affiliate Governor and the Investment Company Affiliate Governor and any other Governor (excluding the Chief Executive Officer of the Corporation and, during the Transitional Period, the Chief Executive Officer of NYSE Regulation, Inc.) or committee member who: (1) is or has served in the prior year as an officer, director (other than as an independent director), employee or controlling person of a broker or dealer, or (2) has a consulting or employment relationship with or provides professional services to a self regulatory organization registered under the Act, or has had any such relationship or provided any such services at any time within the prior year;

(u) "investment banking or securities business" means the business, carried on by a broker, dealer, or municipal securities dealer (other than a bank or department or division of a bank), or government securities broker or dealer, of underwriting or distributing issues of securities, or of purchasing securities and offering the same for sale as a dealer, or of purchasing and selling securities upon the order and for the account of others;

(v) "Investment Company" means an "investment company" as such term is defined in The Investment Company Act of 1940, as amended;

(w) "Investment Company Affiliate Governor" means a member of the Board appointed as such who is a person associated with a member which is an Investment Company or an affiliate of such a member;

(x) "Joint Public Governor" means the one Public Governor to be appointed as such by the Board of Directors of NYSE Group, Inc. and the Board in office prior to the Closing jointly;

(y) "Large Firm" means any broker or dealer admitted to membership in the Corporation which, at the time of determination, has 500 or more registered persons;

(z) "Large Firm Governor" means a member of the Board to be elected by Large Firm members, provided, however, that in order to be eligible to serve, a Large Firm Governor must be an Industry Governor and must be registered with a member which is a Large Firm member;

(aa) "Large Firm Governor Committee" means a committee of the Board comprised of all of the Large Firm Governors;

(bb) "Lead Governor" means a member of the Board elected as such by the Board, provided, however, that any member of the Board who is concurrently serving as a member of the Board of Directors of NYSE Group, Inc. shall not be eligible to serve as the Lead Governor;

(cc) "Mid-Size Firm" means any broker or dealer admitted to membership in the Corporation which, at the time of determination, has at least 151 and no more than 499 registered persons;

(dd) "Mid-Size Firm Governor" means a member of the Board to be elected by Mid-Size Firm members, provided, however, that in order to be eligible to serve, a Mid-Size Firm Governor must be an Industry Governor and must be registered with a member which is a Mid-Size Firm member;

(ee) "member" means any broker or dealer admitted to membership in the Corporation;

(ff) "municipal securities" means securities which are direct obligations of, or obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more States, or any security which is an industrial development

bond as defined by Section 3(a)(29) of the Act;

(gg) "municipal securities broker" means a broker, except a bank or department or division of a bank, engaged in the business of effecting transactions in municipal securities for the account of others;

(hh) "municipal securities dealer" means any person, except a bank or department or division of a bank, engaged in the business of buying and selling municipal securities for such person's own account, through a broker or otherwise, but does not include any person insofar as such person buys or sells securities for such person's own account either individually or in some fiduciary capacity, but not as a part of a regular business;

(ii) "NASD Dispute Resolution" means NASD Dispute Resolution, Inc. or any future name of this entity;

(jj) "NASD Group Committee" means a committee of the Board comprised of the five Public Governors and the Independent Dealer/Insurance Affiliate Governor appointed as such by the Board in office prior to Closing, and the Small Firm Governors which were nominated for election as such by the Board in office prior to Closing, and in each case their successors;

(kk) "NASD Public Governors" means the five Public Governors to be appointed as such by the Board in office prior to the Closing effective as of Closing;

(ll) "NASD Regulation" means NASD Regulation, Inc. or any future name of this entity;

(mm) "NASD Regulation Board" means the Board of Directors of NASD Regulation;

(nn) "National Adjudicatory Council" means a body appointed pursuant to Article V of the NASD Regulation By-Laws;

(oo) "Nominating Committee" means the Nominating Committee appointed pursuant to Article VII, Section 9 of these By-Laws;

(pp) "NYSE Group Committee" means a committee of the Board comprised of the five Public Governors and the Floor Member Governor appointed as such by the Board of Directors of NYSE Group, Inc., and the Large Firm Governors which were nominated for election as such by the Board of Directors of NYSE Group, Inc., and in each case their successors;

(qq) "NYSE Public Governors" shall mean the five Public Governors to be appointed as such by the Board of Directors of NYSE Group, Inc. effective as of Closing;

(rr) "person associated with a member" or "associated person of a member" means: (1) a natural person who is registered or has applied for registration under the Rules of the Corporation; (2) a sole proprietor, partner, officer, director, or branch manager of a member, or other natural person occupying a similar status or performing similar functions, or a natural person engaged in the investment banking or securities business who is directly or indirectly controlling or controlled by a member, whether or not any such person is registered or exempt from registration with the Corporation under these By-Laws or the Rules of the Corporation; and (3) for purposes of Rule 8210, any other person listed in Schedule A of Form BD of a member;

(ss) "Public Director" means a Director of the NASD Regulation Board or NASD Dispute Resolution Board who is not an Industry Director and who otherwise has no material business relationship with a broker or dealer or a self regulatory organization registered under the Act (other than serving as a public director of such a self regulatory organization);

(tt) "Public Governor" or "Public committee member" means any Governor or committee member who is not the Chief Executive Officer of the Corporation or, during the Transitional Period, the Chief Executive Officer of NYSE Regulation, Inc., who is not an Industry Governor and who otherwise has no material business relationship with a broker or dealer or a self regulatory organization registered under the Act (other than serving as a public director of such a self regulatory organization);

(uu) "registered broker, dealer, municipal securities broker or dealer, or government securities broker or dealer" means any broker, dealer, municipal securities broker or dealer, or government securities broker or dealer which is registered with the Commission under the Act;

(w) "Rules of the Corporation" or "Rules" means the numbered rules set forth in the manual of the Corporation beginning with the Rule 0100 Series, as adopted by the Board pursuant to these By-Laws, as hereafter amended or supplemented;

(ww) "Small Firm" means any broker or dealer admitted to membership in the Corporation which, at the time of determination, has at least 1 and no more than 150 registered persons;

(xx) "Small Firm Governor" means a member of the Board to be elected by Small Firm members, provided, however, that in order to be eligible to serve, a Small Firm Governor must be registered with a member which is a Small Firm member and must be an Industry Governor;

(yy) "Small Firm Governor Committee" means a committee of the Board comprised of all the Small Firm Governors; and

(zz) "Transitional Period" means the period commencing on the date of the Closing and ending on the third anniversary of the date of the Closing.

Amended by SR-NASD-2007-023 eff. July 30, 2007.
Amended by SR-NASD-2006-104 eff. Dec. 20, 2006.
Amended by SR-NASD-2006-135 eff. Dec. 20, 2006.
Amended by SR-NASD-2004-110 eff. Dec. 31, 2004.
Amended by SR-NASD-2001-06 eff. May 8, 2001.
Amended by SR-NASD-99-35 eff. Dec. 1, 1999.
Amended by SR-NASD-98-56 eff. Oct. 30, 1998.
Amended by SR-NASD-97-71 eff. Jan. 15, 1998.
Amended by SR-NASD-95-39 eff. Aug 20, 1996.
Amended by SR-NASD-94-64 eff. Feb. 9, 1995.
Amended eff. Mar. 9, 1988 and Sept. 4, 1990.

Selected Notices: 87-14, 87-37, 87-41, 88-51, 94-52, 99-95.

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[Print](#)

0160. Definitions

(a) The terms used in the Rules, if defined in the FINRA By-Laws, shall have the meaning as defined in the FINRA By-Laws, unless a term is defined differently in a Rule, or unless the context of the term within a Rule requires a different meaning.

(b) When used in the Rules, unless the context otherwise requires:

(1) "By-Laws"

The term "By-Laws" means the By-Laws of the Corporation or the FINRA By-Laws.

(2) "Code of Procedure"

The term "Code of Procedure" means the procedural rules contained in the Rule 9000 Series.

(3) "Completion of the Transaction"

The term "completion of the transaction" means:

(A) In the case of a customer who purchases a security through or from a member, except as provided in subparagraph (B), the time when such customer pays the member any part of the purchase price, or, if payment is effected by a bookkeeping entry, the time when such bookkeeping entry is made by the member for any part of the purchase price;

(B) In the case of a customer who purchases a security through or from a member and who makes payment therefor prior to the time when payment is requested or notification is given that payment is due, the time when such member delivers, or credits such delivery of, the security to or into the account of such customer;

(C) In the case of a customer who sells a security through or to a member, except as provided in subparagraph (D), if any security is not in the custody of the member at the time of sale, the time when the security is delivered to the member, and if the security is in the custody of the member at the time of sale, the earlier of when the member transfers the security from the account of such customer or the closing date of the transaction;

(D) In the case of a customer who sells a security through or to a member and who delivers such security to such member prior to the time when delivery is requested or notification is given that delivery is due, the time when such member makes payment to or into the account of such customer.

(4) "Customer"

The term "customer" shall not include a broker or dealer.

(5) "Exchange Act" or "SEA"

The term "Exchange Act" or "SEA" means the Securities Exchange Act of 1934, as amended.

(6) "FINRA"

The term "FINRA" means, collectively, FINRA, Inc., FINRA Regulation, Inc. and FINRA Dispute Resolution, Inc.

(7) "Investment Advisers Act"

The term "Investment Advisers Act" means the Investment Advisers Act of 1940, as amended.

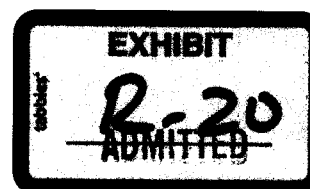
(8) "Investment Company Act"

The term "Investment Company Act" means the Investment Company Act of 1940, as amended.

(9) "Member"

The term "member" means any individual, partnership, corporation or other legal entity admitted to membership in FINRA under the provisions of Articles III and IV of the FINRA By-Laws.

(10) "Person"



The term "person" shall include any natural person, partnership, corporation, association, or other legal entity.

(11) "SEC"

The term "SEC" means the Securities and Exchange Commission.

(12) "Securities Act"

The term "Securities Act" means the Securities Act of 1933, as amended.

(13) "Selling Group"

The term "selling group" means any group formed in connection with a public offering, to distribute all or part of an issue of securities by sales made directly to the public by or through members of such selling group, under an agreement which imposes no financial commitment on the members of such group to purchase any such securities except as they may elect to do so.

(14) "Selling Syndicate"

The term "selling syndicate" means any syndicate formed in connection with a public offering, to distribute all or part of an issue of securities by sales made directly to the public by or through participants in such syndicate under an agreement which imposes a financial commitment upon participants in such syndicate to purchase any such securities.

(15) "State"

The term "State" shall mean any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, or any other possession of the United States.

Amended by SR-FINRA-2011-043 eff. Feb. 21, 2012.

Amended by SR-FINRA-2010-029 eff. Feb. 8, 2011.

Amended by SR-FINRA-2008-026 eff. Dec. 15, 2008.

Amended by SR-NASD-2006-104 eff. March 5, 2007.

Amended by SR-NASD-2003-75 eff. July 9, 2003.

Amended by SR-NASD-99-21 eff. July 9, 2000.

Amended by SR-NASD-98-57 eff. March 26, 1999.

Amended by SR-NASD-98-86 eff. Nov. 19, 1998.

Amended by SR-NASD-97-28 eff. Aug. 7, 1997.

Selected Notices: 08-57, 10-47, 12-04.

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Fax to:
402-325-4212

1547

Ryan Dewing AMERITAS INVESTMENT CORP.
Member NASD and SIPC

REQUEST FOR OUTSIDE BUSINESS ACTIVITIES QUESTIONNAIRE

Instructions: Complete this form for each outside activity and submit it to the Compliance Department. Upon review, you may be asked for additional information. Before engaging in outside activities, you need to ensure that the Compliance Department has provided approval.

RR Name: Michael J. Blake RR#: 076755

Name of OSJ/Agency: Clympus Financial Advisors LLC

Name of outside business: Largest Drive LLC

Is this a DBA a registered entity? Yes ☒ No
If yes, what is your ownership percentage: _____

If less than 100%, identify all parties and your relationship: Managing Partner, there are different investors on each property

Address of business: 4900 N. 52nd Street, Paradise Valley, AZ 85253

Phone Number: 623-238-2891 Fax Number: N/A

Is this business investment related? Yes ☒ No
If yes, do any of your duties include raising capital or issuing debt? Yes ☐ No

What is the nature of this business (what does it do)? Invest in commercial real estate primarily office condo projects in Arizona and Illinois

What is your position, title, and affiliation with this business? Managing partner

How are you compensated: Commission _____ Salary _____ Other I am not compensated

If other please explain: I only receive my proportion of any profit or loss

What is the start date of your participation in this business? 2000

How many hours per month do you devote to this business? 5-6 hrs

How many hours per month are during securities trading hours? none

Briefly describe your duties: I select the projects and then monitor their progress coordinate tax preparation, communicate with developer and investors

Briefly describe your clients or the individuals or entities who you interact with through this business and if they are also clients of AIC: Jim Huttman, Roger Worley, Renee Rester, Dan Hunsley, Dan Gullagher, Pam Ponty, Ron Blake

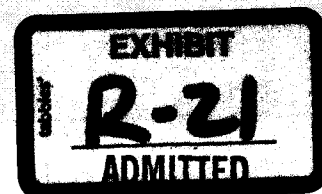
Signature: MJ Blake

Printed Name: Michael Blake

Date: 8/11/09

Approved previously

<input type="checkbox"/> Accepted	<input type="checkbox"/> Denied	<input type="checkbox"/> Web CRD/U4 Update
Signature: _____		
Date: _____		
Reason for Denial: _____		



From: MB (longestdrivellc@hotmail.com)
Sent: Tue 9/22/09 11:07 AM
To: gsernett@ameritas.com

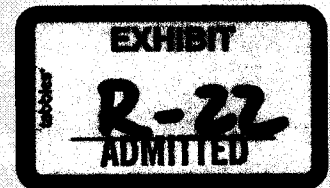
Greg

Here is a list of Longest Drive LLC members that are also AIC clients:

John Huffman	\$200,000
Dan and Kathy Hinsley	\$690,000
Doug and Kira Pippert	\$100,000
Renee Resler	\$150,000
Dan Gallagher	\$50,000
Pam Pont	\$50,000
Ron Blake	\$50,000
David Rudick	\$75,000
Skip McCarthy	\$400,000
Roger Woolley	\$340,000
David Tourville	\$135,000

Michael

Hotmail: Powerful Free email with security by Microsoft. Get it now.



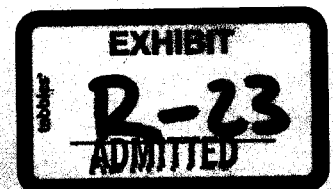
2011 Outside Business Activities

Current Questionnaires: Below is a list of items that you have previously created.

[Add New Item](#)

LONGEST DRIVE LLC	New	Update	<input type="radio"/> Delete
Lewis University National Alumni Board	New	Update	<input type="radio"/> Delete
Paradise Valley Volunteer Policeman	New	Update	<input type="radio"/> Delete
United Way of Central New Mexico Alexis de Toqueville Leadership Circle Chairperson	New	Update	<input type="radio"/> Delete
LICENSED AS AN INDEPENDENT INSURANCE AGENT TO SELL FIXED INSURANCE PRODUCTS	New	Update	<input type="radio"/> Delete
OLYMPUS FINANCIAL ADVISORS LLC	New	Update	<input type="radio"/> Delete
First State Bankcorporation	Completed 10/17/2011 OBA Approved #2 (11/01/2011)	Update	<input checked="" type="checkbox"/> View
Lewis University	Completed 10/17/2011 OBA Approved #2 (11/01/2011)	Update	<input checked="" type="checkbox"/> View

seperate Tab from Annual Compliance Meeting Tab





LONGEST DRIVE LLC

Outside Business Activities

[Print](#)

1. While associated with AIC, have you engaged in any other business activities outside of your relationship with AIC either as a proprietor/owner, partner, officer, director, employee, trustee, agent or otherwise? Or do you have a new outside business activity request to submit?

☒ I certify that I AM, CONTINUE TO BE or I am submitting a new request to be involved in the following activity outside of my activities as a RR.

☐ I certify that I AM NO LONGER involved in the following activity outside of my activities as a RR.

☐ I certify that I am NOT involved in any activities outside of my activities as a RR.

- 1.1. Name of Organization/Outside Business activity:

LONGEST DRIVE LLC

- 1.2. Your specific affiliation with the organization:

Partner

- 1.2.1. If Partner, with is your percentage of Ownership?

☐ Less than 100%

☐ 100%

- 1.3. What is your position, title and/or affiliation with this business?

partner

- 1.4. Where is the location for this activity?

Address 1*:

Address 2:

City*:

State*: Select a State

Zip*:

Ext. (Work Phone):

- 1.5. Telephone Number of the Business Location:

623 238 2891

example: Don't use dashes, use a 1112223333 format

- 1.6. Fax Number of the Business Location:

none

example: Don't use dashes, use a 1112223333 format

- 1.7. Do you use e-mail in connection with your involvement in this activity?

☐ Yes

☐ No

- 1.8. Does this activity and or Organization maintain a web-site?

☐ Yes

☐ No

- 1.9. Name of OSJ Supervising Principal/Agency:

AIC

- 1.10. What is the nature of this Business? (be specific):

Commercial Real estate investing

- 1.11. Does this business involve the sale of financial products or services not offered through AIC?

☐ Yes

☒ No

1.12. How are you Compensated?:

- ☐ Commission
☐ Salary
☐ Debt Reduction
☐ Stock Options
☐ Profit Taking
☐ Referral Fees
☒ Other
☐ No Compensation

1.12.1. If Other, please explain (be specific):

none

1.12.2. What do you project your annual income to be from this OBA?
0.00

1.13. Please describe your Duties/Responsibilities (be specific):

INVESTMENT IN COMMERCIAL REAL ESTATE; NO COMPENSATION RECEIVED

1.14. What is the start date of your participation in this business:
01/01/2001

1.15. How many hours per month do you devote to this business:
2

1.16. How many hours per month are during securities trading hours:
0

1.17. Describe your clients, the individuals or entities who you interact with through this business and if they are also clients of AIC?

On record

1.18. Is this organization in any way related to the securities industry?

- ☐ Yes
☒ No

1.19. Is this business investment Related:

- ☐ Yes
☒ No

1.20. Do any of your duties include raising capital or issuing debt?

☒ Yes

☐ No

1.20.1. If Yes, please explain (be specific):

pool investments in order to investment in projects

1.21. Do you have custody or control over the funds or property of others in connection with your involvement in this activity (eg trustee powers, power-of-attorney (POA), executor, check writing authority, treasurer)?

☐ Yes

☒ No

1.22. Are you the Registered Representative of record on any accounts for this organization/activity?

☐ Yes

☒ No

[Save](#) [Reset](#)

Completed

Respondent: MICHAEL BLAKE
Address: 5040 E SHEA BLVD STE 162 SCOTTSDALE, AZ 85254
Phone: 800-942-5253
Email: mblake@aicinvest.com
Date Completed: 11/26/2012 02:31:30

LONGEST DRIVE LLC (Outside Business Activities)**Outside Business Activities**

1. While associated with AIC, have you engaged in any other business activities outside of your relationship with AIC either as a proprietor/owner, partner, officer, director, employee, trustee, agent or otherwise? Or do you have a new outside business activity request to submit?

I certify that I AM, CONTINUE TO BE or I am submitting a new request to be involved in the following activity outside of my activities as a RR.

1.1. Name of Organization/Outside Business activity:
LONGEST DRIVE LLC

1.2. Your specific affiliation with the organization:
Other

1.2.1. If Other, please explain:
Member

1.3. What is your position, title and/or affiliation with this business?
member

1.4. Where is the location for this activity?

Address 1: 9900 N 52nd Street

Address 2:

City: Paradise Valley

State: Arizona

Zip: 85253

Ext.(Work Phone):

1.5. Telephone Number of the Business Location:
623 238 2891

1.6. Fax Number of the Business Location:
none

1.7. Do you use e-mail in connection with your involvement in this activity?
No

1.8. Does this activity and or Organization maintain a web-site?
No

1.9. Name of OSJ Supervising Principal/Agency:
AIC

1.10. What is the nature of this Business? (be specific):
Commercial Real estate investing

This business is inactive since 2009, there are still three projects that need to close and then this activity will cease to exist

1.11. Does this business involve the sale of financial products or services not offered through AIC?
No

1.12. How are you Compensated?:
Other

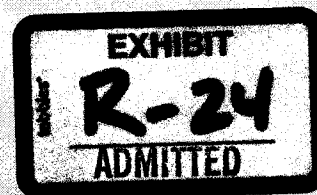
1.12.1. If Other, please explain (be specific):
none

1.12.8. What do you project your annual income to be from this OBA?
\$0.00

1.13. Please describe your Duties/Responsibilities (be specific):
INVESTMENT IN COMMERCIAL REAL ESTATE; NO COMPENSATION RECEIVED

1.14. What is the start date of your participation in this business:
01/01/2001

1.15. How many hours per month do you devote to this business:
0



1.16. How many hours per month are during securities trading hours:

0

1.17. Describe your clients, the individuals or entities who you interact with through this business and if they are also clients of AIC?

On record

1.18. Is this organization in any way related to the securities industry?

No

1.19. Is this business investment Related:

No

1.20. Do any of your duties include raising capital or issuing debt?

Yes

1.20.1. If Yes, please explain (be specific):

pool investments in order to investment in projects, have not done a new deal since 2006

1.21. Do you have custody or control over the funds or property of others in connection with your involvement in this activity (eg trustee powers, power- of-attorney (POA), executor, check writing authority, treasurer)?

No

1.22. Are you the Registered Representative of record on any accounts for this organization/activity?

No



Outside Business Activities

Current Questionnaires: Below is a list of items that you have previously created.

Title	Status	Certified	Review Status	Action
LONGEST DRIVE LLC	Completed	11/26/2012	Declined (11/29/2012)	Update
Paradise Valley Volunteer policeman	Completed	11/26/2012	OBA Approved #2 (11/29/2012)	Update
LICENSED AS AN INDEPENDENT INSURANCE AGENT TO SELL FIXED INSURANCE PRODUCTS.	Completed	11/26/2012	OBA Approved #2 (11/29/2012)	Update
OLYMPUS FINANCIAL ADVISORS LLC	Completed	11/26/2012	OBA Approved #2 (11/29/2012)	Update
First State Bankcorporation	Completed	10/19/2012	OBA Approved #2 (11/01/2011)	Update
Lewis University	Completed	10/19/2012	OBA Approved #2 (11/29/2012)	Update

From: Michael Blake <mblake@ofapeak.us>
Date: April 23, 2013 at 9:15:12 AM MST
To: Evan Nakano <evan@pjblawoffice.com>
Subject: RE: Firm 167141: U.S. Securities and Exchange Commission Has Granted Investment Adviser Registration Application

That is for the company, what about me, also I mistakenly listed us as a LLC we are Inc.

From: Evan Nakano [<mailto:evan@pjblawoffice.com>]
Sent: Tuesday, April 23, 2013 9:14 AM
To: Michael Blake
Subject: RE: Firm 167141: U.S. Securities and Exchange Commission Has Granted Investment Adviser Registration Application

Hi Michael,

These emails are from the SEC notifying you that your RIA has been approved as of April 19, 2013.

Regards,

Evan Nakano
Paralegal
Law Offices of Patrick J. Burns, Jr., P.C
415 N. Camden Drive, Suite 223
Beverly Hills, CA 90210
(P): [310-275-5059](tel:310-275-5059)
(F): [310-275-7305](tel:310-275-7305)
evan@pjblawoffice.com
www.pjblawoffice.com

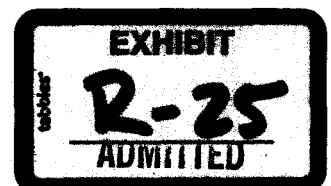
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From: Michael Blake [<mailto:mblake@ofapeak.us>]
Sent: Monday, April 22, 2013 9:17 PM
To: Evan Nakano
Subject: Fwd: Firm 167141: U.S. Securities and Exchange Commission Has Granted Investment Adviser Registration Application

Is this also from you?

Michael J. Blake
President and CEO
Olympus Financial Advisors, LLC
[480-607-6558](tel:480-607-6558)



Begin forwarded message:

From: <SECIARDNotifications@finra.org>

Date: April 22, 2013, 9:10:08 PM MST

To: "Michael Blake" <MBLAKE@OFAPEAK.US>

Subject: Firm 167141: U.S. Securities and Exchange Commission Has Granted Investment Adviser Registration Application



OFFICE OF THE SECRETARY
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

04/23/2013

IN THE MATTER OF:

OLYMPUS FINANCIAL ADVISORS, LLC
10645 N. TATUM BLVD.
SUITE 200-444
PHOENIX, AZ 85028
UNITED STATES

SEC FILE NO.: 801-77826

ORDER GRANTING REGISTRATION PURSUANT TO SECTION 203 OF THE
INVESTMENT ADVISERS ACT OF 1940

OLYMPUS FINANCIAL ADVISORS, LLC ("Applicant") filed an application for registration as an investment adviser under Section 203(c) of the Investment Adviser Act of 1940 on 03/21/2013.

The Commission has found that the application contains the information prescribed under Section 203(c) and the rules thereunder. The Commission has not passed on the accuracy or adequacy of the information, and the effectiveness of Applicant's registration does not imply Commission approval or disapproval. Accordingly,

IT IS ORDERED, pursuant to Section 203(c)(2)(A) of the Act, that the Applicant's registration is hereby granted, effective forthwith.

FOR THE COMMISSION, by the Office of Compliance Inspections and Examinations, pursuant to delegated authority.

Elizabeth M. Murphy,
Acting Secretary

Note: You cannot contact the SEC by replying to this email.

TRACKING INFO:

Date Generated: 04/23/2013 00:10:08

Firm Sent To: OLYMPUS FINANCIAL ADVISORS, LLC(167141)

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Michael Blake

From: SECIARDNotifications@finra.org
Sent: Wednesday, July 17, 2013 9:10 PM
To: Michael Blake
Subject: Firm 167141: Form ADV Amendment Updating Basis for Registration Required
07/18/2013

OLYMPUS FINANCIAL ADVISORS, INC.
10645 N. TATUM BLVD.
SUITE 200-444
PHOENIX, AZ 85028
UNITED STATES

SEC FILE NO.: 801-77826

Investment advisers that are granted registration with the U.S. Securities and Exchange Commission pursuant to Investment Advisers Act of 1940 rule 203A-2(c) [17 CFR 275.203A-2(c)] are required to file an amendment to update their response to Item 2.A. of Form ADV Part 1A within 120 days after the Commission declares their registration effective. (*See Instruction 2.g., Form ADV: Instructions for Part 1A.*) The amendment must either (1) indicate the adviser's new basis for eligibility to register with the Commission or (2) indicate that the adviser is not eligible to register with the Commission and be accompanied by a filing of Form ADV-W to withdraw from Commission registration.

The Commission declared your registration effective on 04/19/2013. This notice is sent as a reminder of your upcoming obligation by 08/17/2013 to amend your Form ADV, as discussed above.

To amend Form ADV on the Investment Adviser Registration Depository (IARD) choose to file an Other-Than-Annual Amendment as the type of filing and update and submit the appropriate response to Item 2.A. Submission of Form ADV-W to withdraw your registration, if necessary, is also completed through the IARD.

If you believe that after the 120 day period has transpired that you will not be eligible for Commission registration and you want to continue operating as an investment adviser you will likely have to be registered in at least one state. You should begin the process of state registration as soon as possible to prevent a gap in adviser registration. If you have questions pertaining to legal or regulatory issues concerning Form ADV or Form ADV-W, or registering with the SEC, call or email the SEC at 202.551.6999 or iardlive@sec.gov. If you have questions pertaining to state registration, call your local state securities regulator.

Note: You cannot contact the SEC by replying to this email.

TRACKING INFO:

Date Generated: 07/18/2013 00:10:03

Firm Sent To: OLYMPUS FINANCIAL ADVISORS, INC.(167141)

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4/23/2014

Sent 9/9/10



Cheryl L. Heilman
Chief Operating Officer

6900 O Street / Lincoln, NE 68510-2234
Bus. 402-467-7451 / Fax: 402-467-5902 / E-mail: cheilman@ameritas.com

Via email and certified US Mail

September 3, 2010

Michael Blake
5040 E. Shea Blvd, Ste 162
Scottsdale, AZ 85254

Dear Mr. Blake,

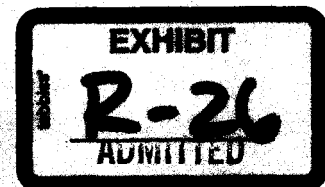
AIC has conducted a review of the materials provided to us relative to the Pippert arbitration and FINRA's review, as well as materials provided in your response to FINRA inquiries. Thank you for your cooperation in providing these materials to AIC. The arbitration and FINRA inquires focused on your activities relative to your personal real estate investments, as well as your participation in real estate investments made by other individuals.

As part of our review, we reviewed AIC and Carillon records to determine whether approval was granted for these outside business activities. We found that in 2002, Bernie Breton (former Chief Compliance Officer of Carillon Investments, Inc.) approved your request to be a member of the Longest Drive LLC, which you formed with four of your friends for purposes of investing in commercial real estate projects. Our review found no evidence of any approval by Carillon or AIC for any activity beyond personal investments in real estate. In fact, until we began our review of materials associated with the recent FINRA inquiry, AIC had no knowledge that your activities had expanded beyond your approved personal investment in real estate.

Sections 2.20 and 2.25 of AIC's Policies and Procedures Manual clearly outline the approval requirements for outside business activities and private securities transactions. Your failure to request review and approval of your expanded activities relative to real estate investing has violated these policies.

AIC believes that your activities could be deemed private securities transactions. Because you failed to request review and approval of your expanded real estate activities, AIC was unable to conduct a proper review to make a determination as to the status of the transactions. As discussed with you, FINRA has been aggressive in detecting private securities transactions and applying disciplinary actions to representatives that have engaged in such transactions.

Through our review of materials and discussions with you, we have noted several mitigating factors that we considered in our evaluation of this matter. First, we note that you did not receive any direct compensation for your role in real estate transactions. We also believe that you did not intend to deceive AIC in this matter and did not knowingly engage in securities activity away from AIC. We also made note that you took clear and specific steps so that there was no doubt in your dealings with these individuals that this activity was separate and distinct from, and totally unrelated to, AIC.



Michael Blake
Page 2
September 3, 2010

Despite these mitigating factors, we have determined that the severity of your failure to disclose this activity warrants the following sanctions:

- 30-day suspension from all securities activities. Such suspension will begin on September 13, 2010 and expire on October 13, 2010.
- Monetary Fine of \$2,500.
- An in-person Compliance Conference in Lincoln, NE for further training on requirements regarding outside business activities and private securities transactions.
- Resignation as co-chair of Broker/Dealer Task Force for 2010.
- As previously discussed, no new activity may be conducted through any entity established for real estate transactions (Longest Drive LLCs)

During your suspension, you cannot conduct any securities transactions for clients, you cannot prospect for new clients, and you cannot contact clients for any purpose relating to securities. You will need to make arrangements for the servicing of your clients during this suspension period and you must clearly communicate these arrangements to all clients. No securities compensation will be earned or paid during your suspension. Any securities commissions received by AIC during your suspension will be forfeited.

You are also required to provide AIC with your written action plan of your arrangements to ensure your clients will not be affected by your suspension. In addition, during your suspension, you may not participate in any AIC-related presentations or discussions at UNIFI or industry events or conferences.

Going forward, you must recommit to following our rules and procedures by clearly disclosing to AIC any personal investment activity that is not covered by the Investment Advisory quarterly transaction reporting you currently submit. In addition, you must recommit to requesting prior written approval of each and every outside business activity, and/or change to a previously approved outside business activity, and each and every proposed private securities transaction prior to engaging in such transactions.

The sanctions outlined above are based on our current understanding of your activities. If additional information comes to our attention that warrants further disciplinary action, you will be notified. In addition, please remember that FINRA is currently conducting a review of your activities regarding real estate transactions. FINRA will independently determine if any disciplinary action is warranted as a result of their review. Any disciplinary action imposed by FINRA is separate from the actions outlined above.

Please sign where indicated below to acknowledge your understanding of and agreement to the terms of the disciplinary action outlined in this letter.

Sincerely,



Cheryl Heilman
Interim Chief Compliance Officer

Michael Blake

Page 2

September 3, 2010

In signing below, I acknowledge my understanding of and agreement to the terms of the disciplinary action outlined in this letter.

Michael Blake

Michael Blake

9-9-10

Date

Accepted by Ameritas Investment Corp.

Cheryl Heilman

Date

STATE OF ARIZONA

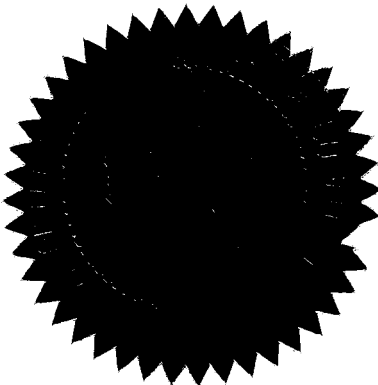


Corporation Commission

CERTIFICATION

I, Mark Dinell, certify that I am the Assistant Director of the Arizona Corporation Commission's Securities Division and that I have legal custody of the records of the Securities Division. I certify that I have directed a diligent search of the Securities Division records and the records reflect that during the period of **March 9, 2000**, to **April 3, 2013**, **Michael J. Blake**, CRD# 2022161, was registered with the Arizona Corporation Commission as a securities salesman. On May 15, 2013, **Michael J. Blake** filed an application for registration with the Commission as a securities salesman in association with Mid Atlantic Capital Corporation, CRD# 10674. On October 2, 2013, **Michael J. Blake** filed an application with the Commission for licensure as an Investment Advisor Representative in association with Mid Atlantic Financial Management, Inc., CRD# 109771.

IN WITNESS WHEREOF, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THE ARIZONA CORPORATION COMMISSION, AT THE CAPITOL, IN THE CITY OF PHOENIX, THIS 5th DAY OF MARCH, 2014.



BY

A handwritten signature of Mark Dinell in black ink.

Mark Dinell
Assistant Director
Securities Division



Composite Information

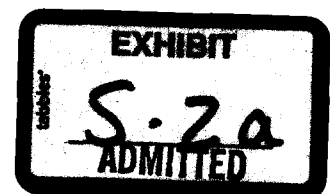
Individual CRD#: 2022161

Individual Name: BLAKE, MICHAEL J

Full Legal Name	BLAKE, MICHAEL JAMES																																		
Social Security Number	XXX-XX-XXXX																																		
Date Of Birth	[REDACTED]																																		
Employment	<table border="1"> <tr> <td>Name</td> <td colspan="4">MID ATLANTIC FINANCIAL MANAGEMENT, INC. (109771)</td> </tr> <tr> <td>Firm Billing Code</td> <td colspan="4">949</td> </tr> <tr> <td>Position</td> <td colspan="4">Investment Adviser Representative</td> </tr> <tr> <td>Independent Contractor</td> <td colspan="4">Yes</td> </tr> <tr> <td>CRD Branch Number</td> <td>FINRA OSJ</td> <td>Address</td> <td>Firm Billing Code</td> <td>NYSE Branch Code Number</td> </tr> <tr> <td>Non Registered Location - Located At</td> <td></td> <td>[REDACTED] [REDACTED] [REDACTED] AZ [REDACTED]</td> <td>949</td> <td></td> </tr> </table>					Name	MID ATLANTIC FINANCIAL MANAGEMENT, INC. (109771)				Firm Billing Code	949				Position	Investment Adviser Representative				Independent Contractor	Yes				CRD Branch Number	FINRA OSJ	Address	Firm Billing Code	NYSE Branch Code Number	Non Registered Location - Located At		[REDACTED] [REDACTED] [REDACTED] AZ [REDACTED]	949	
Name	MID ATLANTIC FINANCIAL MANAGEMENT, INC. (109771)																																		
Firm Billing Code	949																																		
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Independent Contractor	Yes																																		
CRD Branch Number	FINRA OSJ	Address	Firm Billing Code	NYSE Branch Code Number																															
Non Registered Location - Located At		[REDACTED] [REDACTED] [REDACTED] AZ [REDACTED]	949																																
Residential Address	[REDACTED] [REDACTED], AZ [REDACTED]																																		
Reportable Disclosures?	Yes																																		
Statutory Disqualification Status	Timed Suspension/Bar	Last Updated	10/08/2013																																
Has Material Difference in Disclosure?	No																																		
Current CE Status	CE Inactive																																		
Disclosure Counts - Current Disclosures	Criminal	Regulatory Action	Customer Complaint	Other																															
	0	1	5	0																															
Disclosure Counts - Historical Disclosures	Criminal	Regulatory Action	Customer Complaint	Other																															
	0	0	0	2																															

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Composite Information

Individual CRD#: **2022161**Individual Name: **BLAKE, MICHAEL J**

Full Legal Name	BLAKE, MICHAEL JAMES				
Social Security Number	XXX-XX-XXXX				
Date Of Birth	04/11/1956				
Employment	Name	MID ATLANTIC FINANCIAL MANAGEMENT, INC. (109771)			
	Firm Billing Code	949			
	Position	Investment Adviser Representative			
	Independent Contractor	Yes			
	CRD Branch Number	FINRA OSJ	Address	Firm Billing Code	NYSE Branch Code Number
	Non Registered Location - Located At		9900 N. 52ND STREET PARADISE VALLEY, AZ 85253	949	
Residential Address	9900 N. 52ND STREET PARADISE VALLEY, AZ 85253				
Reportable Disclosures?	Yes				
Statutory Disqualification Status	Timed Suspension/Bar	Last Updated	10/08/2013		
Has Material Difference in Disclosure?	No				
Current CE Status	CE Inactive				
Disclosure Counts - Current Disclosures	Criminal	Regulatory Action	Customer Complaint	Other	
	0	1	5	0	
Disclosure Counts - Historical Disclosures	Criminal	Regulatory Action	Customer Complaint	Other	
	0	0	0	2	

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Registrations Summary

Individual CRD#: 2022161Individual Name: **BLAKE, MICHAEL J**

Current Firm(s):

Registrations Summary With Current Employers

Firm Name	Firm CRD	Start Date	IARD Regs.	CRD Regs.	SFG Member
<u>MID ATLANTIC FINANCIAL MANAGEMENT, INC.</u>	<u>109771</u>	10/2013	Y	N	N

Prior Firm(s):

Registrations Summary With Prior Employers

Firm Name	Firm CRD	Start Date	End Date	IARD Regs.	CRD Regs.	SFG Member
<u>MID ATLANTIC CAPITAL CORPORATION</u>	<u>10674</u>	05/2013	10/2013	N	N	N
<u>AMERITAS INVESTMENT CORP.</u>	<u>14869</u>	06/2006	03/2013	N	N	N
<u>CARILLON INVESTMENTS, INC.</u>	<u>14646</u>	11/2002	06/2006	N	N	N
<u>AXA ADVISORS, LLC</u>	<u>6627</u>	12/1989	10/2002	N	N	N
<u>THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES</u>	<u>4039</u>	12/1989	01/2000	N	N	N

[Back to Top](#)

Registrations with Current Employers

Firm CRD # : 109771Firm Name : **MID ATLANTIC FINANCIAL MANAGEMENT, INC.**

Employment Start Date	10/02/2013
-----------------------	------------

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
AZ	RA	10/02/2013	10/02/2013	PENDING	

[Back to Top](#)

Registrations with Prior Employers

Firm CRD # : 10674Firm Name : **MID ATLANTIC CAPITAL CORPORATION**

Employment Start Date	05/15/2013
Employment End Date	10/04/2013

Reason for Termination	Voluntary
Termination Comment	
Firm Name at Termination	MID ATLANTIC CAPITAL CORPORATION

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
FINRA	<u>GP</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
FINRA	<u>GS</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
FINRA	<u>IP</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
FINRA	<u>IR</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
AZ	<u>AG</u>	05/15/2013	10/02/2013	REQUEST_TERM	

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
ARCA	<u>GP</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
ARCA	<u>GS</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
NQX	<u>GP</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
NQX	<u>GS</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
NQX	<u>IP</u>	05/15/2013	10/04/2013	TERMED	05/23/2013
NQX	<u>IR</u>	05/15/2013	10/04/2013	TERMED	05/23/2013

[Back to Top](#)

Registrations with Prior Employers

Firm CRD # : 14869**Firm Name : AMERITAS INVESTMENT CORP.**

Employment Start Date	06/30/2006
Employment End Date	03/28/2013
Reason for Termination	Other
Termination Comment	RETIRED.
Firm Name at Termination	AMERITAS INVESTMENT CORP.

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
FINRA	<u>GP</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
FINRA	<u>GS</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
FINRA	<u>IP</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
FINRA	<u>IR</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
AZ	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
AL	<u>AG</u>	05/23/2008	04/03/2013	TERMED	05/23/2008
CA	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
CO	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
DC	<u>AG</u>	01/24/2008	12/31/2008	TERMED	01/24/2008
FL	<u>AG</u>	05/12/2010	04/03/2013	TERMED	05/17/2010

IA	<u>AG</u>	05/17/2007	04/03/2013	TERMED	05/17/2007
IL	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
IN	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
KS	<u>AG</u>	10/06/2011	04/03/2013	TERMED	10/11/2011
MI	<u>AG</u>	07/07/2009	04/03/2013	TERMED	07/07/2009
MN	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
MO	<u>AG</u>	10/04/2011	04/03/2013	TERMED	10/04/2011
MO	<u>AG</u>	06/04/2008	12/31/2009	TERMED	06/04/2008
MT	<u>AG</u>	01/05/2012	02/10/2012	T_NOREG	
NE	<u>AG</u>	01/05/2012	02/02/2012	T_NOREG	
NJ	<u>AG</u>	08/15/2008	04/03/2013	TERMED	08/15/2008
NM	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
NV	<u>AG</u>	01/03/2008	04/03/2013	TERMED	01/03/2008
NY	<u>AG</u>	07/15/2008	12/31/2008	TERMED	07/15/2008
OH	<u>AG</u>	04/09/2008	04/03/2013	TERMED	04/10/2008
OH	<u>AG</u>	08/24/2006	12/31/2006	TERMED	08/25/2006
OR	<u>AG</u>	05/03/2011	02/06/2013	TERMED	05/03/2011
PA	<u>AG</u>	01/11/2007	04/03/2013	TERMED	01/11/2007
TN	<u>AG</u>	07/11/2007	04/03/2013	TERMED	07/11/2007
TX	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006
WA	<u>AG</u>	08/30/2006	12/31/2008	TERMED	08/30/2006
WI	<u>AG</u>	06/30/2006	04/03/2013	TERMED	06/30/2006

[Back to Top](#)**Registrations with Prior Employers****Firm CRD # : 14646****Firm Name : CARILLON INVESTMENTS, INC.**

Employment Start Date	11/01/2002
Employment End Date	06/30/2006
Reason for Termination	Voluntary
Termination Comment	MASS TRANSFER = 164540
Firm Name at Termination	CARILLON INVESTMENTS, INC.

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
FINRA	<u>GP</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	<u>GS</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	<u>IP</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	<u>IR</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
AZ	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
AZ	<u>RA</u>	11/05/2002	06/30/2006	T_NOREG	
AZ	<u>RA</u>	07/16/2003	03/09/2005	ABANDONED	

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
AR	<u>AG</u>	11/13/2002	12/31/2005	TERMED	11/13/2002

CA	<u>AG</u>	03/08/2006	06/30/2006	MASS_TRNSF	03/08/2006
CO	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
IL	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
IN	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
MI	<u>AG</u>	11/01/2002	12/31/2003	TERMED	11/01/2002
MN	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
NM	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
NV	<u>AG</u>	01/18/2005	12/31/2005	TERMED	01/18/2005
OH	<u>RA</u>	07/11/2003	12/31/2003	TERMED	07/14/2003
PA	<u>AG</u>	11/01/2002	12/31/2003	TERMED	11/01/2002
TX	<u>AG</u>	11/01/2002	06/30/2006	MASS_TRNSF	11/01/2002
WI	<u>AG</u>	03/25/2004	06/30/2006	MASS_TRNSF	03/25/2004

[Back to Top](#)**Registrations with Prior Employers****Firm CRD # : 6627****Firm Name : AXA ADVISORS, LLC**

Employment Start Date	12/01/1989
Employment End Date	10/31/2002
Reason for Termination	Voluntary
Termination Comment	
Firm Name at Termination	AXA ADVISORS, LLC

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
FINRA	<u>GP</u>	07/05/1999	11/07/2002	TERMED	12/07/1999
FINRA	<u>GS</u>	07/05/1999	11/07/2002	TERMED	06/01/1999
FINRA	<u>IP</u>	07/05/1999	11/07/2002	TERMED	01/23/1996
FINRA	<u>IR</u>	07/05/1999	11/07/2002	TERMED	02/14/1990
AZ	<u>AG</u>	03/09/2000	11/07/2002	TERMED	03/09/2000

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
AK	<u>AG</u>	07/05/1999	09/25/1996	TERMED	08/21/1996
AR	<u>AG</u>	07/05/1999	11/07/2002	TERMED	09/25/1996
CA	<u>AG</u>	07/05/1999	11/07/2002	TERMED	05/27/1998
IL	<u>AG</u>	07/05/1999	11/07/2002	TERMED	04/07/1990
IN	<u>AG</u>	02/13/2002	11/07/2002	TERMED	02/13/2002
MI	<u>AG</u>	07/05/1999	11/07/2002	TERMED	11/15/1996
MN	<u>AG</u>	07/05/1999	11/07/2002	TERMED	03/16/1990
MO	<u>AG</u>	07/05/1999	12/31/2001	TERMED	10/08/1998
NM	<u>AG</u>	07/05/1999	11/07/2002	TERMED	12/07/1995
SD	<u>AG</u>	07/05/1999	01/13/1998	TERMED	12/18/1997
TX	<u>AG</u>	08/02/2002	11/07/2002	TERMED	08/02/2002
TX	<u>AG</u>	07/05/1999	12/31/1997	TERMED	12/23/1996

[Back to Top](#)**Registrations with Prior Employers**

Firm CRD # : 4039 **Firm Name :** THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Employment Start Date	12/01/1989
Employment End Date	01/06/2000
Reason for Termination	
Termination Comment	
Firm Name at Termination	THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Regulatory Authority	Registration Category	Filing Date	Status Date	Registration Status	Approval Date
FINRA	<u>GP</u>	07/05/1999	01/05/2000	T_NOU5	12/07/1999
FINRA	<u>GS</u>	07/05/1999	01/05/2000	T_NOU5	06/01/1999
FINRA	<u>IP</u>	07/05/1999	01/05/2000	T_NOU5	10/20/1995
FINRA	<u>IR</u>	07/05/1999	01/05/2000	T_NOU5	02/14/1990

[Back to Top](#)

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Disclosure Occurrence Composite

Individual CRD#: **2022161**Individual Name: **BLAKE, MICHAEL J**

Occurrence:	1652339				
Disclosure:	Regulatory Action				
Publicly Disclosable:	Yes				
Reportable:	Reportable			Reason	
	Yes				
Material Difference in Disclosure:	No				
Latest Filings:	Filing	Event Date	First Reported	Questions Answered	Last Review
	<u>U6-REGINDVL</u> Regulatory Action <u>11/13/2013</u> FINRA	03/21/2013	04/01/2013		
	<u>U4-AMENDMENT</u> Regulatory Action <u>09/13/2013</u> MID ATLANTIC CAPITAL CORPORATION (<u>10674</u>)	03/21/2013	05/20/2013	14E(1),14E(2),14E(4)	
Last Review:	05/21/2013				
Comments:					

REGULATORY ACTION DRP

U6 - REGINDVL
11/13/2013
FINRA

Rev. Form U6 (05/2009)

This Disclosure Reporting Page is an ☐ **INITIAL** or ☒ **AMENDED**

REGULATORY ACTION

Rev. DRP (05/2009)

1. Regulatory Action initiated by:

A. (Select appropriate item):

- ☐ SEC
 ☐ Other Federal Agency
 ☐ Jurisdiction
 ☒ SRO
 ☐ CFTC
☐ Foreign Financial Regulatory Authority
☐ Federal Banking Agency
☐ National Credit Union Administration
☐ Other

B. Full name of regulator (if other than the SEC) that initiated the action:
 FINRA

2. Sanction(s) Sought (select all that apply):

- ☐ Bar
 ☐ Cease and Desist
 ☐ Censure
☐ Civil and Administrative Penalty(ies)/Fine (s)
 ☐ Denial
 ☐ Disgorgement

- | | | |
|--|--|--------------------------------------|
| <input type="checkbox"/> Expulsion | <input type="checkbox"/> Monetary Penalty other than Fines | <input type="checkbox"/> Prohibition |
| <input type="checkbox"/> Reprimand | <input type="checkbox"/> Requalification | <input type="checkbox"/> Rescission |
| <input type="checkbox"/> Restitution | <input type="checkbox"/> Revocation | <input type="checkbox"/> Suspension |
| <input type="checkbox"/> Undertaking | | |
| <input checked="" type="checkbox"/> Other: N/A | | |

3. Date Initiated (MM/DD/YYYY):

03/21/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

4. Docket/Case#:

2010021710501

5. Employing *Firm* when activity occurred which led to the regulatory action:

CARILLON INVESTMENTS, INC. AND AMERITAS INVESTMENT CORPORATION

6. Product Type(s) (select all that apply):

- | | | |
|--|---|---|
| <input type="checkbox"/> No Product | <input type="checkbox"/> Derivative | <input type="checkbox"/> Mutual Fund |
| <input type="checkbox"/> Annuity-Charitable | <input type="checkbox"/> Direct Investment-DPP & LP Interests | <input type="checkbox"/> Oil & Gas |
| <input type="checkbox"/> Annuity-Fixed | <input type="checkbox"/> Equipment Leasing | <input type="checkbox"/> Options |
| <input type="checkbox"/> Annuity-Variable | <input type="checkbox"/> Equity Listed (Common & Preferred Stock) | <input type="checkbox"/> Penny Stock |
| <input type="checkbox"/> Banking Products (other than CDs) | <input type="checkbox"/> Equity-OTC | <input type="checkbox"/> Prime Bank Instrument |
| <input type="checkbox"/> CD | <input type="checkbox"/> Futures Commodity | <input type="checkbox"/> Promissory Note |
| <input type="checkbox"/> Commodity Option | <input type="checkbox"/> Futures-Financial | <input type="checkbox"/> Real Estate Security |
| <input type="checkbox"/> Debt-Asset Backed | <input type="checkbox"/> Index Option | <input type="checkbox"/> Security Futures |
| <input type="checkbox"/> Debt-Corporate | <input type="checkbox"/> Insurance | <input type="checkbox"/> Unit Investment Trust |
| <input type="checkbox"/> Debt-Government | <input type="checkbox"/> Investment Contract | <input type="checkbox"/> Viatical Settlement |
| <input type="checkbox"/> Debt-Municipal | <input type="checkbox"/> Money Market Fund | <input checked="" type="checkbox"/> Other: AN INVESTMENT CONTRACT |

7. Describe the allegations related to this regulatory action. (Your information must fit within the space provided.):

FINRA RULE 2010, NASD RULES 2110, 3030, 3040: BLAKE FORMED AN ENTITY SO THAT HE AND THREE COLLEAGUES COULD POOL FUNDS TO INVEST IN COMMERCIAL REAL ESTATE PROJECTS AND THROUGH THIS ENTITY HE PARTICIPATED IN PRIVATE SECURITIES TRANSACTIONS WITHOUT PROVIDING TO HIS MEMBER FIRMS PRIOR WRITTEN NOTICE. THEREAFTER, THE ENTITY'S SIZE AND SCOPE EXPANDED BEYOND THE SEVERAL INDIVIDUALS WHO INITIALLY FORMED THE ENTITY. THE ENTITY INVESTED APPROXIMATELY \$3,200,000 IN REAL ESTATE PROPERTIES BEING DEVELOPED BY A REAL ESTATE DEVELOPMENT ENTERPRISE ORGANIZED AS A LIMITED LIABILITY COMPANY. THE INVESTED FUNDS WERE PROVIDED BY TWENTY-EIGHT INVESTORS AND TWELVE OF THESE INVESTORS WERE CUSTOMERS OF ONE OR THE OTHER OR OF BOTH OF BLAKE'S FIRMS AT THE TIME OF THEIR RESPECTIVE INVESTMENTS. BLAKE PERSONALLY INVESTED IN THE PROJECTS. EACH INVESTMENT OF FUNDS IN THE ENTITY WAS THE PURCHASE OF A SECURITY IN THE FORM OF AN INVESTMENT CONTRACT. BLAKE PARTICIPATED IN THE SALE OF THE ENTITY'S INVESTMENTS BY SOLICITING INVESTORS, RECEIVING, PROCESSING AND FORWARDING THE FUNDS THAT WERE INVESTED, PROVIDING THE INVESTORS WITH DOCUMENTATION EVIDENCING THEIR INVESTMENTS, FUNCTIONING AS THE POINT OF CONTACT BETWEEN THE INVESTORS AND A REAL ESTATE DEVELOPMENT ENTERPRISE, APPRISING THE INVESTORS OF THE STATUS OF THE ENTITY'S INVESTMENTS AND CAUSING THE PREPARATION OF SCHEDULE K1 FORMS. BLAKE COMPLETED HIS FIRM'S ANNUAL COMPLIANCE QUESTIONNAIRES AND ANSWERED "YES" WHEN ASKED IF HE UNDERSTOOD HE WAS NOT PERMITTED TO COMMINGLE HIS FUNDS WITH A CLIENT'S FUNDS AND

THAT HE WAS NOT TO ACCEPT A CLIENT'S CHECK MADE PAYABLE TO HIM OR ANY ENTITY OR PERSON ASSOCIATED WITH HIM FOR A SECURITIES TRANSACTION. BUT, BLAKE CONTINUED TO ACCEPT CHECKS MADE PAYABLE TO THE ENTITY AND HE COMMINGLED HIS FUNDS WITH CLIENT'S FUNDS IN THE ENTITY'S BANK ACCOUNT. BLAKE NEVER ADVISED HIS FIRMS ORALLY OR IN WRITING THAT HE WAS PARTICIPATING IN THE PRIVATE SECURITIES TRANSACTIONS. TO THE CONTRARY, BLAKE INDICATED EACH YEAR, IN ANNUAL COMPLIANCE QUESTIONNAIRES, THAT HE HAD NOT ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. THE REAL ESTATE DEVELOPMENT ENTERPRISE FILED FOR BANKRUPTCY AND, TO DATE, NONE OF THE INVESTORS IN THE ENTITY'S INVESTMENTS HAVE RECEIVED A RETURN OF THEIR PRINCIPAL OR ANY INTEREST OR OTHER PAYMENTS. BLAKE COMPLETED HIS ASSOCIATED FIRM QUESTIONNAIRES AND FALSELY ANSWERED "NO" WHEN ASKED IF HE HAD ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. BLAKE DID DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS ON AUGUST 31, 2003, SEPTEMBER 8, 2004, MARCH 14, 2005 AND OCTOBER 1, 2007. HOWEVER, BLAKE DID NOT DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS WHICH HE COMPLETED ON SEPTEMBER 18, 2006 AND JULY 31, 2008, INQUIRING INTO ALL OF HIS OUTSIDE BUSINESS ACTIVITIES. THE ENTITY'S SIZE, SCOPE AND ACTIVITY CHANGED SIGNIFICANTLY AFTER BLAKE'S INITIAL DISCLOSURE AND THESE CHANGES CAUSED THE INITIAL DISCLOSURE TO BECOME INACCURATE AND, GIVEN THE NATURE AND EXTENT OF ITS ACTIVITIES, MISLEADING. BLAKE DID NOT AMEND OR UPDATE THE OUTSIDE BUSINESS DISCLOSURE CONCERNING THE ENTITY AT ANY TIME. BLAKE'S FALSE AND INCOMPLETE INFORMATION ON COMPLIANCE QUESTIONNAIRES AND BY FAILING TO UPDATE AND CORRECT HIS OUTSIDE BUSINESS DISCLOSURE MISLED HIS FIRM. BY MISLEADING THE FIRM, BLAKE DEPRIVED HIS EMPLOYER OF INFORMATION THAT COULD HAVE RESULTED IN THE DETECTION OF HIS PARTICIPATION IN PRIVATE SECURITIES TRANSACTIONS, NOTWITHSTANDING HIS FAILURE TO MAKE AN AFFIRMATIVE DISCLOSURE IN THE QUESTIONNAIRES. BLAKE FAILED TO PROVIDE HIS FIRM WITH ANY NOTICE AT ALL, INCLUDING WRITTEN NOTICE, OF A SECOND LIMITED LIABILITY COMPANY HE CAUSED TO BE CREATED.

8. Current Status?

☐ Pending ☐ On Appeal ☒ Final

9. If pending, are there any limitations or restrictions currently in effect?

☐ Yes ☒ No

If the answer is 'yes', provide details:

10. If on appeal:

A. Action appealed to:

☐ SEC ☐ SRO ☐ CFTC ☐ Federal Court ☐ State Agency or Commission ☐ State Court ☐ Other:

B. Date appeal filed (MM/DD/YYYY):

☐ Exact ☐ Explanation

If not exact, provide explanation:

C. Are there any limitations or restrictions currently in effect while on appeal?

☐ Yes ☐ No

If the answer is 'yes', provide details:

If Final or On Appeal, complete all items below. For Pending Actions, complete Item 14 only.

11. Resolution Detail:

A. How was matter resolved? (select appropriate item):

<input type="radio"/> Acceptance, Waiver & Consent (AWC)	<input type="radio"/> Consent	<input type="radio"/> Decision
<input checked="" type="radio"/> Decision & Order of Offer of Settlement	<input type="radio"/> Dismissed	<input type="radio"/> Order
<input type="radio"/> Settled	<input type="radio"/> Stipulation and Consent	<input type="radio"/> Vacated

☐ Vacated Nunc Pro Tunc/ab initio

☐ Withdrawn

☐ Other:

B. Resolution Date (MM/DD/YYYY):

09/09/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

12. Does the order constitute a *final order* based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?

☐ Yes ☒ No

13. Sanction Detail:

A. Were any of the following sanctions ordered? (Select all appropriate items):

☐ Bar (Permanent)

☐ Bar (Temporary/Time Limited)

☐ Cease and Desist

☐ Censure

☒ Civil and Administrative Penalty (ies)/Fine(s)

☐ Denial

☐ Disgorgement

☐ Expulsion

☐ Letter of Reprimand

☐ Monetary Penalty other than Fines

☐ Prohibition

☐ Requalification

☐ Rescission

☐ Restitution

☐ Revocation

☒ Suspension

☐ Undertaking

B. Other sanctions ordered:

C. If the regulator provided in Question 1A above is the SEC, CFTC, an SRO, did the action result in a finding of a willful violation or failure to supervise?

☐ Yes ☒ No

If yes, was the subject *found* to have:

(1) willfully violated any provision of the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940, the Commodity Exchange Act, or any rule or regulation under any of such Acts, or any of the rules of the Municipal Securities Rulemaking Board, or to have been unable to comply with any provision of such Act, rule or regulation?

☐ Yes ☒ No

(2) willfully aided, abetted, counseled, commanded, induced, or procured the violation by any person of any provision of the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940, the Commodity Exchange Act, or any rule or regulation under any of such Acts, or any of the rules of the Municipal Securities Rulemaking Board?

☐ Yes ☒ No

(3) failed reasonably to supervise another person subject to the subject's supervision, with a view to preventing the violation by such person of any provision of the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940, the Commodity Exchange Act, or any rule or regulation under any of such Acts, or any of the rules of the Municipal Securities Rulemaking Board?

☐ Yes ☒ No

D. If suspended or barred, provide:

Sanction Details

If suspended or barred, provide:

Sanction Type: Suspension

Registration Capacities affected (e.g., General Securities
Principal, Financial Operations Principal, All Capacities, etc.):
ALL CAPACITIES

Duration (length of time):

ONE YEAR ☒ Exact ☐ Explanation

If not exact, provide explanation:

Start Date (MM/DD/YYYY):

10/07/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

End Date (MM/DD/YYYY):

10/06/2014 ☒ Exact ☐ Explanation

If not exact, provide explanation:

E. If requalification by exam/retraining was a condition of the sanction, provide:

F. If disposition resulted in a fine, penalty, restitution, disgorgement or monetary compensation, provide:

Monetary Sanction Details

If disposition resulted in a fine, penalty, restitution, disgorgement or monetary compensation, provide:

Monetary Related Sanction Type: Civil and Administrative Penalty(ies)/Fine(s)

Total Amount:

\$ 10,000.00

Portion Levied against You :

\$ 10,000.00

Payment Plan:

Is Payment Plan Current? ☐ Yes ☒ No

Date Paid by You (MM/DD/YYYY):

10/04/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

Was any portion of penalty waived? ☐ Yes ☒ No

If yes, amount:

14. Comment (Optional). You may use this field to provide a brief summary of the circumstances leading to the action as well as the current status or final disposition and/or finding(s). Include relevant terms, conditions and dates. Include the number of investors in the reporting jurisdiction, the total number of investors in the program, the amount invested in the reporting jurisdiction, the total amount invested and whether the action is based on a referral or *investigation* from your securities division. Your information must fit within the space provided.

WITHOUT ADMITTING OR DENYING THE ALLEGATIONS, BLAKE CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE HE IS FINED \$10,000 AND SUSPENDED FROM ASSOCIATION WITH ANY FINRA MEMBER IN ALL CAPACITIES FOR ONE YEAR. THE SUSPENSION IS IN EFFECT FROM OCTOBER 7, 2013, THROUGH OCTOBER 6, 2014. FINE PAID IN FULL 10/04/13.

U4 - AMENDMENT**09/13/2013****MID ATLANTIC CAPITAL CORPORATION (10674)**

Rev. Form U4 (05/2009)

This Disclosure Reporting Page is an ☐ **INITIAL** or ☒ **AMENDED** response to report details for affirmative response(s) to **Question(s) 14C, 14D, 14E, 14F and 14G(1)** on Form U4;

REGULATORY ACTION

Rev. DRP (05/2009)

Check the question(s) you are responding to, regardless of whether you are answering the question(s) "yes" or amending the answer(s) to "no":

- | | | | |
|---------------------------------|------------------------------------|--|---------------------------------|
| <input type="checkbox"/> 14C(1) | <input type="checkbox"/> 14D(1)(a) | <input checked="" type="checkbox"/> 14E(1) | <input type="checkbox"/> 14F |
| <input type="checkbox"/> 14C(2) | <input type="checkbox"/> 14D(1)(b) | <input checked="" type="checkbox"/> 14E(2) | |
| <input type="checkbox"/> 14C(3) | <input type="checkbox"/> 14D(1)(c) | <input type="checkbox"/> 14E(3) | <input type="checkbox"/> 14G(1) |
| <input type="checkbox"/> 14C(4) | <input type="checkbox"/> 14D(1)(d) | <input checked="" type="checkbox"/> 14E(4) | |
| <input type="checkbox"/> 14C(5) | <input type="checkbox"/> 14D(1)(e) | <input type="checkbox"/> 14E(5) | |
| <input type="checkbox"/> 14C(6) | <input type="checkbox"/> 14D(2)(a) | <input type="checkbox"/> 14E(6) | |
| <input type="checkbox"/> 14C(7) | <input type="checkbox"/> 14D(2)(b) | <input type="checkbox"/> 14E(7) | |
| <input type="checkbox"/> 14C(8) | | | |

One event may result in more than one affirmative answer to the above items. Use only one DRP to report details related to the same event. If an event gives rise to actions by more than one regulator, provide details to each action on a separate DRP.

1. Regulatory Action initiated by:

A. (Select appropriate item):

- ☐ SEC ☐ Other Federal Agency ☐ Jurisdiction ☒ SRO ☐ CFTC
☐ Foreign Financial Regulatory Authority ☐ Federal Banking Agency ☐ National Credit Union
 Administration ☐ Other

B. Full name of regulator (if other than the SEC) that initiated the action:

FINRA

2. Sanction(s) Sought (select all that apply):

- | | | |
|---|--|---------------------------------------|
| <input type="checkbox"/> Bar | <input type="checkbox"/> Cease and Desist | <input type="checkbox"/> Censure |
| <input type="checkbox"/> Civil and Administrative Penalty(ies)/Fine (s) | <input type="checkbox"/> Denial | <input type="checkbox"/> Disgorgement |
| <input type="checkbox"/> Expulsion | <input type="checkbox"/> Monetary Penalty other than Fines | <input type="checkbox"/> Prohibition |
| <input type="checkbox"/> Reprimand | <input type="checkbox"/> Requalification | <input type="checkbox"/> Rescission |
| <input type="checkbox"/> Restitution | <input type="checkbox"/> Revocation | <input type="checkbox"/> Suspension |
| <input type="checkbox"/> Undertaking | | |
| <input checked="" type="checkbox"/> Other: N/A | | |

3. Date Initiated (MM/DD/YYYY):

03/21/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

4. Docket/Case#:
2010021710501

5. Employing *Firm* when activity occurred which led to the regulatory action:
CARILLON INVESTMENTS, INC. AND AMERITAS INVESTMENT CORPORATION

6. Product Type(s) (select all that apply):

- | | | |
|--|---|---|
| <input type="checkbox"/> No Product | <input type="checkbox"/> Derivative | <input type="checkbox"/> Mutual Fund |
| <input type="checkbox"/> Annuity-Charitable | <input type="checkbox"/> Direct Investment-DPP & LP Interests | <input type="checkbox"/> Oil & Gas |
| <input type="checkbox"/> Annuity-Fixed | <input type="checkbox"/> Equipment Leasing | <input type="checkbox"/> Options |
| <input type="checkbox"/> Annuity-Variable | <input type="checkbox"/> Equity Listed (Common & Preferred Stock) | <input type="checkbox"/> Penny Stock |
| <input type="checkbox"/> Banking Products (other than CDs) | <input type="checkbox"/> Equity-OTC | <input type="checkbox"/> Prime Bank Instrument |
| <input type="checkbox"/> CD | <input type="checkbox"/> Futures Commodity | <input type="checkbox"/> Promissory Note |
| <input type="checkbox"/> Commodity Option | <input type="checkbox"/> Futures-Financial | <input type="checkbox"/> Real Estate Security |
| <input type="checkbox"/> Debt-Asset Backed | <input type="checkbox"/> Index Option | <input type="checkbox"/> Security Futures |
| <input type="checkbox"/> Debt-Corporate | <input type="checkbox"/> Insurance | <input type="checkbox"/> Unit Investment Trust |
| <input type="checkbox"/> Debt-Government | <input type="checkbox"/> Investment Contract | <input type="checkbox"/> Viatical Settlement |
| <input type="checkbox"/> Debt-Municipal | <input type="checkbox"/> Money Market Fund | <input checked="" type="checkbox"/> Other: AN INVESTMENT CONTRACT |

7. Describe the allegations related to this regulatory action. (Your information must fit within the space provided.):

FINRA RULE 2010, NASD RULES 2110, 3030, 3040: BLAKE FORMED AN ENTITY SO THAT HE AND THREE FRIENDS COULD POOL FUNDS TO INVEST IN COMMERCIAL REAL ESTATE PROJECTS AND THROUGH THIS ENTITY HE PARTICIPATED IN PRIVATE SECURITIES TRANSACTIONS WITHOUT PROVIDING TO HIS MEMBER FIRMS PRIOR WRITTEN NOTICE. THEREAFTER, THE ENTITY'S SIZE AND SCOPE EXPANDED BEYOND THE SEVERAL INDIVIDUALS WHO INITIALLY FORMED THE ENTITY. THE ENTITY INVESTED APPROXIMATELY \$3,200,000 IN REAL ESTATE PROPERTIES BEING DEVELOPED BY A REAL ESTATE DEVELOPMENT ENTERPRISE ORGANIZED AS A LIMITED LIABILITY COMPANY. THE INVESTED FUNDS WERE PROVIDED BY TWENTY-EIGHT INVESTORS AND TWELVE OF THESE INVESTORS WERE CUSTOMERS OF ONE OR THE OTHER OR OF BOTH OF BLAKE'S FIRMS AT THE TIME OF THEIR RESPECTIVE INVESTMENTS. BLAKE PERSONALLY INVESTED IN THE PROJECTS. EACH INVESTMENT OF FUNDS IN THE ENTITY WAS THE PURCHASE OF A SECURITY IN THE FORM OF AN INVESTMENT CONTRACT. BLAKE PARTICIPATED IN THE SALE OF THE ENTITY'S INVESTMENTS BY SOLICITING INVESTORS, RECEIVING, PROCESSING AND FORWARDING THE FUNDS THAT WERE INVESTED, PROVIDING THE INVESTORS WITH DOCUMENTATION EVIDENCING THEIR INVESTMENTS, FUNCTIONING AS THE POINT OF CONTACT BETWEEN THE INVESTORS AND A REAL ESTATE DEVELOPMENT ENTERPRISE, APPRISING THE INVESTORS OF THE STATUS OF THE ENTITY'S INVESTMENTS AND CAUSING THE PREPARATION OF SCHEDULE K1 FORMS. BLAKE COMPLETED HIS FIRM'S ANNUAL COMPLIANCE QUESTIONNAIRES AND ANSWERED "YES" WHEN ASKED IF HE UNDERSTOOD HE WAS NOT PERMITTED TO COMMINGLE HIS FUNDS WITH A CLIENT'S FUNDS AND THAT HE WAS NOT TO ACCEPT A CLIENT'S CHECK MADE PAYABLE TO HIM OR ANY ENTITY OR PERSON ASSOCIATED WITH HIM FOR A SECURITIES TRANSACTION. BUT, BLAKE CONTINUED TO ACCEPT CHECKS MADE PAYABLE TO THE ENTITY AND HE COMMINGLED HIS FUNDS WITH CLIENT'S FUNDS IN THE ENTITY'S BANK ACCOUNT. BLAKE NEVER ADVISED HIS FIRMS ORALLY OR IN WRITING THAT HE WAS PARTICIPATING IN THE PRIVATE SECURITIES TRANSACTIONS. TO THE CONTRARY, BLAKE INDICATED EACH YEAR, IN ANNUAL COMPLIANCE QUESTIONNAIRES, THAT HE HAD NOT ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. THE REAL ESTATE DEVELOPMENT ENTERPRISE FILED FOR BANKRUPTCY AND, TO DATE, NONE OF THE INVESTORS IN THE ENTITY'S INVESTMENTS HAVE RECEIVED A RETURN OF THEIR PRINCIPAL OR ANY INTEREST OR OTHER PAYMENTS. BLAKE COMPLETED HIS ASSOCIATED FIRM QUESTIONNAIRES AND FALSELY ANSWERED "NO" WHEN ASKED IF HE HAD ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. BLAKE DID DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS ON AUGUST 31, 2003, SEPTEMBER 8, 2004, MARCH 14, 2005 AND OCTOBER 1, 2007. HOWEVER, BLAKE

DID NOT DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS WHICH HE COMPLETED ON SEPTEMBER 18, 2006 AND JULY 31, 2008, INQUIRING INTO ALL OF HIS OUTSIDE BUSINESS ACTIVITIES. THE ENTITY'S SIZE, SCOPE AND ACTIVITY CHANGED SIGNIFICANTLY AFTER BLAKE'S INITIAL DISCLOSURE AND THESE CHANGES CAUSED THE INITIAL DISCLOSURE TO BECOME INACCURATE AND, GIVEN THE NATURE AND EXTENT OF ITS ACTIVITIES, MISLEADING. BLAKE DID NOT AMEND OR UPDATE THE OUTSIDE BUSINESS DISCLOSURE CONCERNING THE ENTITY AT ANY TIME. BLAKE'S FALSE AND INCOMPLETE INFORMATION ON COMPLIANCE QUESTIONNAIRES AND BY FAILING TO UPDATE AND CORRECT HIS OUTSIDE BUSINESS DISCLOSURE MISLED HIS FIRM. BY MISLEADING THE FIRM, BLAKE DEPRIVED HIS EMPLOYER OF INFORMATION THAT COULD HAVE RESULTED IN THE DETECTION OF HIS PARTICIPATION IN PRIVATE SECURITIES TRANSACTIONS, NOTWITHSTANDING HIS FAILURE TO MAKE AN AFFIRMATIVE DISCLOSURE IN THE QUESTIONNAIRES. BLAKE FAILED TO PROVIDE HIS FIRM WITH ANY NOTICE AT ALL, INCLUDING WRITTEN NOTICE, OF A SECOND LIMITED LIABILITY COMPANY HE CAUSED TO BE CREATED.

8. Current Status?

☐ Pending ☐ On Appeal ☒ Final

9. If pending, are there any limitations or restrictions currently in effect?

☐ Yes ☒ No

If the answer is 'yes', provide details:

10. If on appeal:

A. Action appealed to:

☐ SEC ☐ SRO ☐ CFTC ☐ Federal Court ☐ State Agency or Commission ☐ State Court ☐ Other:

B. Date appeal filed (MM/DD/YYYY):

☐ Exact ☐ Explanation

If not exact, provide explanation:

C. Are there any limitations or restrictions currently in effect while on appeal?

☐ Yes ☐ No

If the answer is 'yes', provide details:

If Final or On Appeal, complete all items below. For Pending Actions, complete Item 14 only.

11. Resolution Detail:

A. How was matter resolved? (select appropriate item):

<input type="radio"/> Acceptance, Waiver & Consent (AWC)	<input type="radio"/> Consent	<input type="radio"/> Decision
<input checked="" type="radio"/> Decision & Order of Offer of Settlement	<input type="radio"/> Dismissed	<input type="radio"/> Order
<input type="radio"/> Settled	<input type="radio"/> Stipulation and Consent	<input type="radio"/> Vacated
<input type="radio"/> Vacated Nunc Pro Tunc/ab initio	<input type="radio"/> Withdrawn	
<input type="radio"/> Other:		

B. Resolution Date (MM/DD/YYYY):

09/09/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

12. Does the order constitute a *final order* based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct?

☐ Yes ☒ No

13. Sanction Detail:

A. Were any of the following sanctions ordered? (Select all appropriate items):

- | | | |
|--|--|--|
| <input type="checkbox"/> Bar (Permanent) | <input type="checkbox"/> Bar (Temporary/Time Limited) | <input type="checkbox"/> Cease and Desist |
| <input type="checkbox"/> Censure | <input checked="" type="checkbox"/> Civil and Administrative Penalty (ies)/Fine(s) | <input type="checkbox"/> Denial |
| <input type="checkbox"/> Disgorgement | <input type="checkbox"/> Expulsion | <input type="checkbox"/> Letter of Reprimand |
| <input type="checkbox"/> Monetary Penalty other than Fines | <input type="checkbox"/> Prohibition | <input type="checkbox"/> Requalification |
| <input type="checkbox"/> Rescission | <input type="checkbox"/> Restitution | <input type="checkbox"/> Revocation |
| <input checked="" type="checkbox"/> Suspension | <input type="checkbox"/> Undertaking | |

B. Other sanctions ordered:

C. If suspended or barred, provide:

Sanction Details

If suspended or barred, provide:

Sanction Type: Suspension

Registration Capacities affected (e.g., General Securities Principal, Financial Operations Principal, All Capacities, etc.):
ALL CAPACITIES

Duration (length of time):

ONE YEAR ☒ Exact ☐ Explanation

If not exact, provide explanation:

Start Date (MM/DD/YYYY):

10/07/2013 ☒ Exact ☐ Explanation

If not exact, provide explanation:

End Date (MM/DD/YYYY):

10/06/2014 ☒ Exact ☐ Explanation

If not exact, provide explanation:

D. If requalification by exam/retraining was a condition of the sanction, provide:

E. If disposition resulted in a fine, penalty, restitution, disgorgement or monetary compensation, provide:

Monetary Sanction Details

If disposition resulted in a fine, penalty, restitution, disgorgement or monetary compensation, provide:

Monetary Related Sanction Type: Civil and Administrative Penalty(ies)/Fine(s)

Total Amount:

\$ 10,000.00

Portion Levied against You :

\$ 10,000.00

Payment Plan:

Is Payment Plan Current? ☐ Yes ☐ No

Date Paid by You (MM/DD/YYYY):

☐ Exact ☐ Explanation

If not exact, provide explanation:

Was any portion of penalty waived? ☐ Yes ☒ No

If yes, amount:

14. Comment (Optional). You may use this field to provide a brief summary of the circumstances leading to the action as well as the current status or disposition and/or finding(s). Your information must fit within the space provided.

WITHOUT ADMITTING OR DENYING THE ALLEGATIONS, BLAKE CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE HE IS FINED \$10,000 AND SUSPENDED FROM ASSOCIATION WITH ANY FINRA MEMBER IN ALL CAPACITIES FOR ONE YEAR. THE SUSPENSION IS IN EFFECT FROM OCTOBER 7, 2013, THROUGH OCTOBER 6, 2014.

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Details for Request#: 13095903
Report: Snapshot - Individual
Requested By: PTH

<u>Parameter Name</u>	<u>Value</u>
Request by CRD# or SSN:	CRD#
Individual CRD# or SSN	2022161
Include Personal Information?	Yes
Include All Registrations with Employments:	Both Current and Previous Employments
Include All Registrations for Current and/or Previous Employments with:	All Regulators
Include Professional Designations?	Yes
Include Employment History?	Yes
Include Other Business?	Yes
Include Exam Information?	Yes
Include Continuing Education Information? (CRD Only)	Yes
Include Filing History? (CRD Only)	Yes
Include Current Reportable Disclosure Information?	Yes
Include Regulator Archive and Z Record Information? (CRD Only)	Yes

Individual 2022161 - BLAKE, MICHAEL JAMES

Administrative Information

Composite Information

Full Legal Name BLAKE, MICHAEL JAMES

State of Residence AZ

Active Employments

Current Employer MID ATLANTIC FINANCIAL MANAGEMENT, INC.(109771)

Firm Main Address 1251 WATERFRONT PLACE
SUITE 510
PITTSBURGH
PA, UNITED STATES
15222-4235

Firm Mailing Address

Business Telephone# 412-391-7077

Independent Contractor Yes

Office of Employment Address

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
		949	No	Yes	10/02/2013		Located At
Address 9900 N. 52ND STREET PARADISE VALLEY, AZ 85253 UNITED STATES							

Reportable Disclosures? Yes

Statutory Disqualification? SDTMSPNSNBAR

Registered With Multiple Firms? No

Material Difference in Disclosure? No

Personal Information

Individual CRD# 2022161

Other Names Known By <<No Other Names found for this Individual.>>

Year of Birth 1956

Registrations with Current Employer(s)

From	10/02/2013	To	Present	MID ATLANTIC FINANCIAL MANAGEMENT, INC.(109771)
Regulator	Registration Category	Status Date	Registration Status	Approval Date
AZ	RA	10/02/2013	PENDING	

Registrations with Previous Employer(s)

From	05/15/2013	To	10/04/2013	MID ATLANTIC CAPITAL CORPORATION(10674)
Reason for Termination Voluntary				
Termination Comment				
Regulator	Registration Category	Status Date	Registration Status	Approval Date

Individual 2022161 - BLAKE, MICHAEL JAMES**Administrative Information****Registrations with Previous Employer(s)**

Regulator	Registration Category	Status Date	Registration Status	Approval Date
ARCA	GP	10/04/2013	TERMED	05/23/2013
ARCA	GS	10/04/2013	TERMED	05/23/2013
AZ	AG	10/02/2013	REQUEST_TERM	
FINRA	GP	10/04/2013	TERMED	05/23/2013
FINRA	GS	10/04/2013	TERMED	05/23/2013
FINRA	IP	10/04/2013	TERMED	05/23/2013
FINRA	IR	10/04/2013	TERMED	05/23/2013
NQX	GP	10/04/2013	TERMED	05/23/2013
NQX	GS	10/04/2013	TERMED	05/23/2013
NQX	IP	10/04/2013	TERMED	05/23/2013
NQX	IR	10/04/2013	TERMED	05/23/2013

From 06/30/2006 To 03/28/2013 AMERITAS INVESTMENT CORP.(14869)

Reason for Termination Other

Termination Comment RETIRED.

Regulator	Registration Category	Status Date	Registration Status	Approval Date
AL	AG	04/03/2013	TERMED	05/23/2008
AZ	AG	04/03/2013	TERMED	06/30/2006
CA	AG	04/03/2013	TERMED	06/30/2006
CO	AG	04/03/2013	TERMED	06/30/2006
DC	AG	12/31/2008	TERMED	01/24/2008
FINRA	GP	04/03/2013	TERMED	06/30/2006
FINRA	GS	04/03/2013	TERMED	06/30/2006
FINRA	IP	04/03/2013	TERMED	06/30/2006
FINRA	IR	04/03/2013	TERMED	06/30/2006
FL	AG	04/03/2013	TERMED	05/17/2010
IA	AG	04/03/2013	TERMED	05/17/2007
IL	AG	04/03/2013	TERMED	06/30/2006
IN	AG	04/03/2013	TERMED	06/30/2006
KS	AG	04/03/2013	TERMED	10/11/2011
MI	AG	04/03/2013	TERMED	07/07/2009
MN	AG	04/03/2013	TERMED	06/30/2006
MO	AG	04/03/2013	TERMED	10/04/2011
MO	AG	12/31/2009	TERMED	06/04/2008
MT	AG	02/10/2012	T_NOREG	
NE	AG	02/02/2012	T_NOREG	
NJ	AG	04/03/2013	TERMED	08/15/2008
NM	AG	04/03/2013	TERMED	06/30/2006
NV	AG	04/03/2013	TERMED	01/03/2008
NY	AG	12/31/2008	TERMED	07/15/2008
OH	AG	04/03/2013	TERMED	04/10/2008
OH	AG	12/31/2006	TERMED	08/25/2006
OR	AG	02/06/2013	TERMED	05/03/2011
PA	AG	04/03/2013	TERMED	01/11/2007

Individual 2022161 - BLAKE, MICHAEL JAMES**Administrative Information****Registrations with Previous Employer(s)**

Regulator	Registration Category	Status Date	Registration Status	Approval Date
TN	AG	04/03/2013	TERMED	07/11/2007
TX	AG	04/03/2013	TERMED	06/30/2006
WA	AG	12/31/2008	TERMED	08/30/2006
WI	AG	04/03/2013	TERMED	06/30/2006

From 11/01/2002 To 06/30/2006 CARILLON INVESTMENTS, INC.(14646)

Reason for Termination Voluntary

Termination Comment MASS TRANSFER = 164540

Regulator	Registration Category	Status Date	Registration Status	Approval Date
AR	AG	12/31/2005	TERMED	11/13/2002
AZ	AG	06/30/2006	MASS_TRNSF	11/01/2002
AZ	RA	06/30/2006	T_NOREG	
AZ	RA	03/09/2005	ABANDONED	
CA	AG	06/30/2006	MASS_TRNSF	03/08/2006
CO	AG	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	GP	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	GS	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	IP	06/30/2006	MASS_TRNSF	11/01/2002
FINRA	IR	06/30/2006	MASS_TRNSF	11/01/2002
IL	AG	06/30/2006	MASS_TRNSF	11/01/2002
IN	AG	06/30/2006	MASS_TRNSF	11/01/2002
MI	AG	12/31/2003	TERMED	11/01/2002
MN	AG	06/30/2006	MASS_TRNSF	11/01/2002
NM	AG	06/30/2006	MASS_TRNSF	11/01/2002
NV	AG	12/31/2005	TERMED	01/18/2005
OH	RA	12/31/2003	TERMED	07/14/2003
PA	AG	12/31/2003	TERMED	11/01/2002
TX	AG	06/30/2006	MASS_TRNSF	11/01/2002
WI	AG	06/30/2006	MASS_TRNSF	03/25/2004

From 12/01/1989 To 10/31/2002 AXA ADVISORS, LLC(6627)

Reason for Termination Voluntary

Termination Comment

Regulator	Registration Category	Status Date	Registration Status	Approval Date
AK	AG	09/25/1996	TERMED	08/21/1996
AR	AG	11/07/2002	TERMED	09/25/1996
AZ	AG	11/07/2002	TERMED	03/09/2000
CA	AG	11/07/2002	TERMED	05/27/1998
FINRA	GP	11/07/2002	TERMED	12/07/1999
FINRA	GS	11/07/2002	TERMED	06/01/1999
FINRA	IP	11/07/2002	TERMED	01/23/1996
FINRA	IR	11/07/2002	TERMED	02/14/1990
IL	AG	11/07/2002	TERMED	04/07/1990
IN	AG	11/07/2002	TERMED	02/13/2002

Individual 2022161 - BLAKE, MICHAEL JAMES

Administrative Information

Registrations with Previous Employer(s)

Regulator	Registration Category	Status Date	Registration Status	Approval Date
MI	AG	11/07/2002	TERMED	11/15/1996
MN	AG	11/07/2002	TERMED	03/16/1990
MO	AG	12/31/2001	TERMED	10/08/1998
NM	AG	11/07/2002	TERMED	12/07/1995
SD	AG	01/13/1998	TERMED	12/18/1997
TX	AG	11/07/2002	TERMED	08/02/2002
TX	AG	12/31/1997	TERMED	12/23/1996

From 12/01/1989 To 01/06/2000 THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES(4039)

Reason for Termination

Termination Comment

Regulator	Registration Category	Status Date	Registration Status	Approval Date
FINRA	GP	01/05/2000	T_NOU5	12/07/1999
FINRA	GS	01/05/2000	T_NOU5	06/01/1999
FINRA	IP	01/05/2000	T_NOU5	10/20/1995
FINRA	IR	01/05/2000	T_NOU5	02/14/1990

Individual 2022161 - BLAKE, MICHAEL JAMES

Administrative Information**Professional Designations**<<No Professional Designations found for this Individual.>>

Employment History

From	10/2013	To	Present	Name	MID ATLANTIC FINANCIAL MANAGEMENT, INC
				Location	PITTSBURGH, PA, USA
				Position	INVESTMENT ADVISOR REPRESENTATIVE
				Investment Related	Yes
From	10/2002	To	Present	Name	OLYMPUS FINANCIAL ADVISORS
				Location	SCOTTSDALE, AZ, USA
				Position	PRESIDENT AND CEO
				Investment Related	Yes
From	05/2013	To	10/2013	Name	MID ATLANTIC CAPITAL CORPORATION
				Location	SACRAMENTO, CA, USA
				Position	REGISTERED REPRESENTATIVE
				Investment Related	Yes
From	06/2006	To	03/2013	Name	AMERITAS INVESTMENT CORP.
				Location	LINCOLN, NE, USA
				Position	REGISTERED REPRESENTATIVE
				Investment Related	Yes
From	06/2006	To	03/2013	Name	AMERITAS LIFE INSURANCE CORP.
				Location	LINCOLN, NE, USA
				Position	LICENSED AGENT
				Investment Related	Yes
From	06/2006	To	12/2011	Name	ACACIA LIFE INSURANCE
				Location	BETHESDA, MD, USA
				Position	LICENSED AGENT
				Investment Related	Yes
From	09/2002	To	12/2011	Name	UNION CENTRAL LIFE INSURANCE
				Location	CINCINNATI, OH, USA
				Position	LICENSED AGENT
				Investment Related	Yes
From	11/2002	To	06/2006	Name	CARILLON INVESTMENTS, INC.
				Location	CINCINNATI, OH, USA
				Position	REGISTERED REPRESENTATIVE

Individual 2022161 - BLAKE, MICHAEL JAMES**Administrative Information****Employment History**

		Investment Related	Yes
From	12/1989	To	10/2002
	Name EQ FINANCIAL CONSULTANTS, INC.		
	Location ALBUQUERQUE, NM		
	Position NOT PROVIDED		
		Investment Related	Yes
From	12/1989	To	10/2002
	Name THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES		
	Location ALBUQUERQUE, NM		
	Position NOT PROVIDED		
		Investment Related	Yes

Office of Employment History

From 10/2013 To Present

Name MID ATLANTIC FINANCIAL MANAGEMENT, INC.(109771)**Independent Contractor** Yes**Office of Employment Address**

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
		949	No	Yes	10/02/2013		Located At
Address 9900 N. 52ND STREET PARADISE VALLEY, AZ 85253 UNITED STATES							

From 05/2013 To 10/2013

Name MID ATLANTIC CAPITAL CORPORATION(10674)**Independent Contractor** Yes**Office of Employment Address**

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
536140		229	Yes	Yes	05/24/2013	10/04/2013	Located At
Address 9900 N. 52ND STREET PARADISE VALLEY, AZ 85253 UNITED STATES							
174315		002	Yes	No	05/15/2013	10/04/2013	Supervised From
Address 180 PROMENADE CIRCLE, SUITE 220 SACRAMENTO, CA 95834 UNITED STATES							
		229	No	Yes	05/15/2013	05/24/2013	Located At
Address 9900 N. 52ND STREET PARADISE VALLEY, AZ 85253 UNITED STATES							

From 06/2006 To 03/2013

Name AMERITAS INVESTMENT CORP.(14869)

Individual 2022161 - BLAKE, MICHAEL JAMES**Administrative Information****Office of Employment History****Independent Contractor** Yes**Office of Employment Address**

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
292031		67-2	Yes	No	06/30/2006	03/28/2013	Located At
Address 5040 E. SHEA BLVD., SUITE 162 SCOTTSDALE, AZ 85254 UNITED STATES							

From 11/2002 To 06/2006

Name CARILLON INVESTMENTS, INC.(14646)**Independent Contractor** Yes**Office of Employment Address**

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
275436		67-2	Yes	No	06/14/2006	06/30/2006	Located At
Address 5040 E. SHEA BLVD., SUITE 162 SCOTTSDALE, AZ 85254 UNITED STATES							
			No	No	11/01/2002	06/30/2006	Located At
Address 5040 E. SHEA BLVD., SUITE 162 SCOTTSDALE, AZ 85254 USA							

From 12/1989 To 10/2002

Name AXA ADVISORS, LLC(6627)**Independent Contractor** No**Office of Employment Address**

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
		CHI6627M	No	No	12/01/1989	10/31/2002	Located At
Address 9900 N. 52ND STREET PARADISE VALLEY, AZ 85253							

From 12/1989 To 01/2000

Name THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES(4039)**Independent Contractor** No**Office of Employment Address**

CRD Branch#	NYSE Branch Code#	Firm Billing Code	Registered Location?	Private Residence?	Address Start Date	Address End Date	Type of Office
		CHI4039M	No	No	12/01/1989	01/06/2000	Located At
Address 6100 UPTOWN BLVD NE SUITE 230 ALBUQUERQUE, NM 87110							

Individual 2022161 - BLAKE, MICHAEL JAMES**Administrative Information****Office of Employment History****Office of Employment Address****Other Business**

1)FIXED INSURANCE SALES~NON INVESTMENT RELATED~PARADISE VALLEY, AZ~AGENT~02/1990~20HRS PER MONTH~10HRS PER MONTH DURING MARKET~SALE OF FIXED INSURANCE PRODUCTS - - -

2)OLYMPUS FINANCIAL ADVISORS LLC~INVESTMENT RELATED~PARADISE VALLEY, AZ~DBA FOR INVESTMENT BUSINESS~PRESIDENT/CEO~11/2002~160HRS PER MONTH~130HRS PER MONTH DURING MARKET~INVESTMENTS/FINANCIAL PLANNING - - -

3)LONGEST DRIVE LLC~NON INVESTMENT RELATED~PARADISE VALLEY, AZ~COMMERCIAL REAL ESTATE INVESTING~MEMBER~2001~0HRS PER MONTH~0HRS PER MONTH DURING MARKET~MONITOR PROJECTS ONGOING/MAKE SURE K-L'S ARE PREPARED

Exam Appointments

<<No Exam Appointments found for this Individual.>>

Exam History

Exam	Enrollment ID	Exam Status	Status Date	Exam Date	Grade	Score	Window Dates
S6	19937408	Official Result	02/12/1990	02/12/1990	Passed	75	-
S6	19937407	Official Result	01/02/1990	01/02/1990	Failed	67	-
S7	19937414	Official Result	05/29/1999	05/29/1999	Passed	80	-
S24	19937405	Official Result	12/07/1999	12/04/1999	Passed	70	10/10/1999-02/07/2000
S24	19937404	Official Result	09/27/1999	09/10/1999	Failed	68	-
S24	19937403	Official Result	07/09/1999	07/09/1999	Failed	60	-
S26	19937406	Official Result	10/19/1995	10/19/1995	Passed	73	-
S63	19937409	Official Result	03/09/1990	03/09/1990	Passed	82	-
S65	33868611	Official Result	10/02/2013	10/01/2013	Passed	80	06/27/2013-10/25/2013
S65	19937413	Window Expired	11/13/2003				07/15/2003-11/12/2003
S65	19937412	Official Waiver	07/14/2003				-
S65	19937411	Window Expired	03/07/2003				11/06/2002-03/06/2003
S65	19937410	Official Result	12/28/1995	12/28/1995	Passed	72	-

CE Regulatory Element Status**Current CE Status** CEINACTIVE**CE Base Date** 09/09/2013**CE Appointments**

<<No CE Appointments found for this Individual.>>

Current CE

Requirement Type	Session	Status	Status Date	Window Dates	Result
Directed Sequence	201	CEINACTIVE	01/07/2014	09/09/2013-01/06/2014	
Directed Sequence	201	REQUIRED	09/10/2013	09/09/2013-01/06/2014	

Next CE

Window Dates	Requirement Type	Session
09/09/2015-01/06/2016	Anniversary	201

Individual 2022161 - BLAKE, MICHAEL JAMES

Administrative Information

CE Directed Sequence History

Source	Type of Penalty	Date of Action	Effective Date
FINRA	SEQUENCE	09/09/2013	09/09/2013

Inactive CE History Dates

From 01/07/2014 To Present

Previous CE Requirement Status

Requirement Type	Session	Status	Status Date	Window Dates	Result
Anniversary	201	SATISFIED	03/14/2013	02/14/2013-06/13/2013	03/14/2013 - CMPLT
Anniversary	201	REQUIRED	02/14/2013	02/14/2013-06/13/2013	
Anniversary	201	SATISFIED	05/10/2010	02/14/2010-06/13/2010	05/10/2010 - CMPLT
Anniversary	201	REQUIRED	02/15/2010	02/14/2010-06/13/2010	
Anniversary	201	SATISFIED	04/05/2007	02/14/2007-06/13/2007	04/05/2007 - CMPLT
Anniversary	201	REQUIRED	02/14/2007	02/14/2007-06/13/2007	
Anniversary	201	SATISFIED	03/02/2004	02/14/2004-06/12/2004	03/02/2004 - CMPLT
Anniversary	201	REQUIRED	02/16/2004	02/14/2004-06/12/2004	
Anniversary	201	SATISFIED	06/09/2001	02/14/2001-06/13/2001	06/09/2001 - CMPLT
Anniversary	201	REQUIRED	02/14/2001	02/14/2001-06/13/2001	
Anniversary	101	SATISFIED	02/14/1990	02/14/1998-06/13/1998	
Anniversary	101			02/14/1995-06/13/1995	
Anniversary	101			02/14/1992-06/12/1992	

Filing History

Filing Date	Form Type	Filing type	Source
01/02/2014	U5	Amendment	AMERITAS INVESTMENT CORP. (14869)
11/13/2013	U6	CRD Individual	FINRA
10/04/2013	U5	Full	MID ATLANTIC CAPITAL CORPORATION (10674)
10/04/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
10/04/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
10/02/2013	U5	Partial	MID ATLANTIC CAPITAL CORPORATION (10674)
10/02/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
09/13/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
09/10/2013	U6	CRD Individual	FINRA
07/17/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
07/01/2013	U5	Amendment	AMERITAS INVESTMENT CORP. (14869)
06/26/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
06/05/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
05/24/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
05/24/2013	BR	Initial	MID ATLANTIC CAPITAL CORPORATION (10674)
05/22/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
05/20/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
05/15/2013	U4	Amendment	MID ATLANTIC CAPITAL CORPORATION (10674)
05/15/2013	U4	Initial	MID ATLANTIC CAPITAL CORPORATION (10674)
05/01/2013	U5	Amendment	AMERITAS INVESTMENT CORP. (14869)
04/03/2013	U5	Full	AMERITAS INVESTMENT CORP. (14869)

Individual 2022161 - BLAKE, MICHAEL JAMES

Administrative Information**Filing History**

Filing Date	Form Type	Filing type	Source
04/01/2013	U6	CRD Individual	FINRA
02/22/2013	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
02/06/2013	U5	Partial	AMERITAS INVESTMENT CORP. (14869)
12/18/2012	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
11/28/2012	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/14/2012	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
02/09/2012	U5	Partial	AMERITAS INVESTMENT CORP. (14869)
02/02/2012	U5	Partial	AMERITAS INVESTMENT CORP. (14869)
01/24/2012	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
01/05/2012	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
11/02/2011	U6	CRD Individual	FINRA
11/01/2011	U6	CRD Individual	FINRA
10/06/2011	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
10/04/2011	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/10/2011	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/03/2011	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
03/15/2011	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
06/09/2010	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/26/2010	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/12/2010	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
03/08/2010	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
02/18/2010	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
12/14/2009	U5	Partial	AMERITAS INVESTMENT CORP. (14869)
09/22/2009	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
08/19/2009	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
07/07/2009	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
06/03/2009	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
04/23/2009	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
12/18/2008	U5	Partial	AMERITAS INVESTMENT CORP. (14869)
08/15/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
07/15/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
06/04/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/23/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
04/09/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
01/24/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
01/18/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
01/03/2008	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
07/11/2007	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
05/17/2007	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
04/16/2007	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
01/11/2007	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
12/13/2006	U5	Partial	AMERITAS INVESTMENT CORP. (14869)
08/30/2006	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)

Individual 2022161 - BLAKE, MICHAEL JAMES

Administrative Information**Filing History**

Filing Date	Form Type	Filing type	Source
08/24/2006	U4	Amendment	AMERITAS INVESTMENT CORP. (14869)
06/30/2006	MT	Mass Transfer	AMERITAS INVESTMENT CORP. (14869)
06/30/2006	MT	Mass Transfer	CARILLON INVESTMENTS, INC. (14646)
06/14/2006	BR	Initial	CARILLON INVESTMENTS, INC. (14646)
03/08/2006	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
12/01/2005	U5	Partial	CARILLON INVESTMENTS, INC. (14646)
01/18/2005	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
03/25/2004	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
12/19/2003	U5	Partial	CARILLON INVESTMENTS, INC. (14646)
07/16/2003	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
07/11/2003	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
04/09/2003	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
11/15/2002	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
11/13/2002	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
11/07/2002	U5	Full	AXA ADVISORS, LLC (6627)
11/05/2002	U4	Amendment	CARILLON INVESTMENTS, INC. (14646)
11/01/2002	U4	Relicense CRD	CARILLON INVESTMENTS, INC. (14646)
08/02/2002	U4	Amendment	AXA ADVISORS, LLC (6627)
02/13/2002	U4	Amendment	AXA ADVISORS, LLC (6627)
12/06/2001	U5	Partial	AXA ADVISORS, LLC (6627)
06/18/2001	U4	Amendment	AXA ADVISORS, LLC (6627)
03/09/2000	U4	Amendment	AXA ADVISORS, LLC (6627)
02/29/2000	U4	Amendment	AXA ADVISORS, LLC (6627)
09/29/1999	U4	Amendment	AXA ADVISORS, LLC (6627)
07/05/1999	U5	Conversion	AXA ADVISORS, LLC (6627)
07/05/1999	U4	Conversion	THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES (4039)

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events**Number of Reportable Events**

Bankruptcy	0
Bond	0
Civil Judicial	0
Criminal	0
Customer Complaint	5
Internal Review	0
Investigation	0
Judgement/Lien	0
Regulatory Action	1
Termination	0

Occurrence# 1476779

FINRA Public Disclosable Yes

Material Difference in Disclosure No

Disclosure Type

Reportable

Customer Complaint

Yes

Filing ID 29818615

Filing Date 03/15/2011

Source 14869 - AMERITAS INVESTMENT CORP.

Disclosure Questions Answered 141(1)(d)

Form (Form Version) U4 (05/2009)

Customer Complaint DRP

DRP Version 05/2009

1. Customer name(s): KIRA ANN PIPPERT REVOCABLE TRUST

2. Residence information:

A. Customer(s) state of residence: Minnesota

B. Other state(s) of residence/ detail:

3. Employing firm: AMERITAS INVESTMENT CORP

4. Allegation(s): CLAIMANTS ALLEGE THAT THE RR VIOLATED STATE SECURITIES LAWS, BREACH OF FIDUCIARY DUTY, NEGLIGENCE, COMMON LAW FRAUD, AND VIOLATION OF RULE 2010.

5. Product type(s): Promissory Note

6. Alleged compensatory damage amount: \$1,500,000.00

Explanation:

7. Customer complaints:

A. Oral complaint:

B. Written complaint:

C. Arbitration/CFTC reparation or civil litigation:

i. Arbitration/Reparation forum

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

- court name/location:
- ii. Docket/Case#:
- iii. Arbitration or civil litigation filing date:
- D. Date received by/Served on firm/Explanation:
- 8. Complaint, arbitration/CFTC reparation, civil litigation pending:
- 9. Complaint, arbitration/CFTC reparation or civil status:
- 10. Status date/Explanation:
- 11. Settlement/Award/Monetary judgment:
 - A. Award amount:
 - B. Contribution amount:
- 12. Arbitration/CFTC reparation information:
 - A. Arbitration/CFTC reparation claim filed with: FINRA
 - B. Docket/Case#: 09-04700
 - C. Date notice/Process was served/Explanation: 09/10/2009
- 13. Pending arbitration/ CFTC reparation: No
- 14. Disposition: Settled
- 15. Disposition date/Explanation: 02/25/2011
- 16. Monetary compensation details:
 - A. Total compensation amount: \$475,000.00
 - B. Contribution amount: \$390,000.00
- 17. Court in which case was filed:
 - A. Name of court:
 - B. Location of court:
 - C. Docket/Case#:
- 18. Date notice/process was served/Explanation:
- 19. Pending civil litigation:
- 20. Civil litigation status:
- 21. Disposition date/Explanation:

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

22. Monetary compensation details:

A. Total compensation amount:

B. Contribution amount:

23. If action is currently on appeal:

A. Appeal date/Explanation:

B. Court appeal filed with:

i. Name of court:

ii. Location of court:

iii. Docket/Case#:

24. Comment:

THIS ALLEGED COMPLAINT WAS THE RESULT OF REAL ESTATE INVESTMENTS THAT THE CLIENTS INVESTED IN BASED ON MY MAKING THEM AWARE OF THESE REAL ESTATE INVESTMENTS. ALTHOUGH I MADE THEM AWARE OF THESE OPPORTUNITIES, I DID NOT RECOMMEND THEM. I HAVE AN APPROVED OUTSIDE BUSINESS ACTIVITY FOR PERSONAL REAL ESTATE INVESTING. I DID NOT RECEIVE ANY COMPENSATION OR BENEFIT IN ANY WAY FROM THEIR INVESTING. THIS WAS UNRELATED TO MY OLYMPUS FINANCIAL ADVISORS PRACTICE AND MY BROKER DEALER RELATIONSHIP WITH AMERITAS INVESTMENT CORP. THE CLIENTS WORKED DIRECTLY WITH THE DEVELOPER AND THEY CHOOSE NOT TO PURSUE CLAIMS AGAINST THIS DEVELOPER DUE TO THE CURRENT FINANCIAL CONDITION OF DEVELOPER.

Filing ID 31282851
Filing Date 11/02/2011
Source FINRA
Disclosure Questions Answered

Form (Form Version) U6 (05/2009)

SRO Arbitration/Reparation DRP

DRP Version 05/2009

1. Case name: DOUGLAS J. PIPPERT, KIRA ANN PIPPERT, AND KIRA ANN PIPPERT REVOCABLE TRUST VS. AMERITAS INVESTMENT CORP., MICHAEL BLAKE AND OLYMPUS FINANCIAL ADVISORS, INC.
2. Arbitration/Reparation filed with: FINRA
3. Date initiated: 08/06/2009
4. Docket/Case#: 09-04700
5. Employing firm: AMERITAS INVESTMENT CORP.
6. Allegation(s): VIOLATION OF STATE SECURITIES LAWS; COMMON LAW BREACH OF FIDUCIARY DUTY; BREACH OF FIDUCIARY DUTY UNDER MINNESOTA STATUTE; NEGLIGENCE; COMMON LAW FRAUD; AND

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

SRO Arbitration/Reparation DRP

DRP Version 05/2009

VIOLATIONS OF FINRA RULE 2010

7. Product type: Real Estate Security
8. Alleged compensatory damage amount: \$1,500,000.00
9. Currently pending resolution: No
10. Resolution details:
- A. Resolution: Stipulated Award
- B. Resolution date: 10/28/2011
- C. Disposition details: THE PARTIES SETTLED THIS MATTER AND AGREED TO PRESENT A STIPULATED AWARD TO THE PANEL FOR CONSIDERATION. UNDER THE TERMS OF THE SETTLEMENT AGREEMENT, THE AWARD WILL ONLY BE ENTERED IF BLAKE DOES NOT COMPLY WITH THE TERMS OF THE SETTLEMENT AGREEMENT. BLAKE IS LIABLE FOR AND SHALL PAY TO CLAIMANTS THE SUM OF \$500,000.00 IN COMPENSATORY DAMAGES.

11. Comment:

Occurrence#	1610778	Disclosure Type	Customer Complaint
FINRA Public Disclosable	Yes	Reportable	Yes
Material Difference in Disclosure	No		

Filing ID	33594867	Form (Form Version)	U4 (05/2009)
Filing Date	11/28/2012		
Source	14869 - AMERITAS INVESTMENT CORP.		
Disclosure Questions Answered	141(1)(d)		

Customer Complaint DRP

DRP Version 05/2009

1. Customer name(s): GARY CHILCOAT
2. Residence information:
- A. Customer(s) state of residence: New Mexico
- B. Other state(s) of residence/ detail:
3. Employing firm: AMERITAS INVESTMENT CORP
4. Allegation(s): BREACH OF FIDUCIARY DUTY, BREACH OF THE DUTY OF ORDINARY AND REASONABLE CARE, NEGLIGENCE AND GROSS NEGLIGENCE, AND BREACH OF CONTRACT
5. Product type(s): Promissory Note
6. Alleged compensatory damage amount: \$430,000.00
- Explanation:
7. Customer complaints:

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

- A. Oral complaint:
- B. Written complaint:
- C. Arbitration/CFTC reparation or civil litigation:
 - i. Arbitration/Reparation forum court name/location:
 - ii. Docket/Case#:
 - iii. Arbitration or civil litigation filing date:
- D. Date received by/Served on firm/Explanation:
- 8. Complaint, arbitration/CFTC reparation, civil litigation pending:
- 9. Complaint, arbitration/CFTC reparation or civil status:
- 10. Status date/Explanation:
- 11. Settlement/Award/Monetary judgment:
 - A. Award amount:
 - B. Contribution amount:
- 12. Arbitration/CFTC reparation information:
 - A. Arbitration/CFTC reparation claim filed with: FINRA
 - B. Docket/Case#: 12-01379
 - C. Date notice/Process was served/Explanation: 04/24/2012
- 13. Pending arbitration/ CFTC reparation: No
- 14. Disposition: Settled
- 15. Disposition date/Explanation: 11/20/2012
- 16. Monetary compensation details:
 - A. Total compensation amount: \$75,000.00
 - B. Contribution amount: \$60,000.00
- 17. Court in which case was filed:
 - A. Name of court:
 - B. Location of court:
 - C. Docket/Case#:

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

- 18. Date notice/process was served/Explanation:
- 19. Pending civil litigation:
- 20. Civil litigation status:
- 21. Disposition date/Explanation:
- 22. Monetary compensation details:
 - A. Total compensation amount:
 - B. Contribution amount:
- 23. If action is currently on appeal:
 - A. Appeal date/Explanation:
 - B. Court appeal filed with:
 - i. Name of court:
 - ii. Location of court:
 - iii. Docket/Case#:

24. Comment:

Occurrence#	1636674	Disclosure Type	Customer Complaint
FINRA Public Disclosable	Yes	Reportable	Yes
Material Difference in Disclosure	No		

Filing ID	34144976	Form (Form Version)	U4 (05/2009)
Filing Date	02/22/2013		
Source	14869 - AMERITAS INVESTMENT CORP.		
Disclosure Questions Answered	14I(3)(a)		

Customer Complaint DRP

DRP Version 05/2009

- 1. Customer name(s): BARBARA MARTENSEN
- 2. Residence information:
 - A. Customer(s) state of residence: Arizona
 - B. Other state(s) of residence/ detail:
- 3. Employing firm: AMERITAS INVESTMENT CORP
- 4. Allegation(s): COMPLAINANT ALLEGES THAT RR MISREPRESENTED THE POLICY IN ORDER TO REPLACE AN EXISTING POLICY.
- 5. Product type(s): Insurance
- 6. Alleged compensatory damage amount: \$95,285.00
Explanation: NO DAMAGE AMOUNT ALLEGED, PURCHASE PRICE

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

REFLECTED.

7. Customer complaints:

- A. Oral complaint: No
- B. Written complaint: Yes
- C. Arbitration/CFTC reparation or civil litigation: No

- i. Arbitration/Reparation forum
court name/location:
- ii. Docket/Case#:
- iii. Arbitration or civil litigation filing
date:

- D. Date received by/Served on 10/29/2012
firm/Explanation:

8. Complaint, arbitration/CFTC reparation, civil litigation pending: No

9. Complaint, arbitration/CFTC reparation or civil status: Denied

10. Status date/Explanation: 02/13/2013

11. Settlement/Award/Monetary judgment:

- A. Award amount:
- B. Contribution amount:

12. Arbitration/CFTC reparation information:

- A. Arbitration/CFTC reparation claim
filed with:
- B. Docket/Case#:
- C. Date notice/Process was
served/Explanation:

13. Pending arbitration/ CFTC reparation:

14. Disposition:

15. Disposition date/Explanation:

16. Monetary compensation details:

- A. Total compensation amount:
- B. Contribution amount:

17. Court in which case was filed:

- A. Name of court:

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

- B. Location of court:
- C. Docket/Case#:
- 18. Date notice/process was served/Explanation:
- 19. Pending civil litigation:
- 20. Civil litigation status:
- 21. Disposition date/Explanation:
- 22. Monetary compensation details:
 - A. Total compensation amount:
 - B. Contribution amount:
- 23. If action is currently on appeal:
 - A. Appeal date/Explanation:
 - B. Court appeal filed with:
 - i. Name of court:
 - ii. Location of court:
 - iii. Docket/Case#:

24. Comment:

Occurrence#	1652339	Disclosure Type	Regulatory Action
FINRA Public Disclosable	Yes	Reportable	Yes
Material Difference in Disclosure	No		
Filing ID	35234738	Form (Form Version)	U4 (05/2009)
Filing Date	09/13/2013		
Source	10674 - MID ATLANTIC CAPITAL CORPORATION		
Disclosure Questions Answered	14E(1),14E(2),14E(4)		

Regulatory Action DRP

DRP Version 05/2009

- 1. Regulatory Action initiated by:
 - A. Initiated by: Self Regulatory Organization
 - B. Full name of regulator: FINRA
- 2. Sanction(s) sought: Other: N/A
- 3. Date initiated/Explanation: 03/21/2013
- 4. Docket/Case#: 2010021710501
- 5. Employing firm: CARILLON INVESTMENTS, INC. AND AMERITAS INVESTMENT CORPORATION

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Regulatory Action DRP

DRP Version 05/2009

6. Product type(s):

Other: AN INVESTMENT CONTRACT

7. Allegation(s):

FINRA RULE 2010, NASD RULES 2110, 3030, 3040: BLAKE FORMED AN ENTITY SO THAT HE AND THREE FRIENDS COULD POOL FUNDS TO INVEST IN COMMERCIAL REAL ESTATE PROJECTS AND THROUGH THIS ENTITY HE PARTICIPATED IN PRIVATE SECURITIES TRANSACTIONS WITHOUT PROVIDING TO HIS MEMBER FIRMS PRIOR WRITTEN NOTICE. THEREAFTER, THE ENTITY'S SIZE AND SCOPE EXPANDED BEYOND THE SEVERAL INDIVIDUALS WHO INITIALLY FORMED THE ENTITY. THE ENTITY INVESTED APPROXIMATELY \$3,200,000 IN REAL ESTATE PROPERTIES BEING DEVELOPED BY A REAL ESTATE DEVELOPMENT ENTERPRISE ORGANIZED AS A LIMITED LIABILITY COMPANY. THE INVESTED FUNDS WERE PROVIDED BY TWENTY-EIGHT INVESTORS AND TWELVE OF THESE INVESTORS WERE CUSTOMERS OF ONE OR THE OTHER OR OF BOTH OF BLAKE'S FIRMS AT THE TIME OF THEIR RESPECTIVE INVESTMENTS. BLAKE PERSONALLY INVESTED IN THE PROJECTS. EACH INVESTMENT OF FUNDS IN THE ENTITY WAS THE PURCHASE OF A SECURITY IN THE FORM OF AN INVESTMENT CONTRACT. BLAKE PARTICIPATED IN THE SALE OF THE ENTITY'S INVESTMENTS BY SOLICITING INVESTORS, RECEIVING, PROCESSING AND FORWARDING THE FUNDS THAT WERE INVESTED, PROVIDING THE INVESTORS WITH DOCUMENTATION EVIDENCING THEIR INVESTMENTS, FUNCTIONING AS THE POINT OF CONTACT BETWEEN THE INVESTORS AND A REAL ESTATE DEVELOPMENT ENTERPRISE, APPRISING THE INVESTORS OF THE STATUS OF THE ENTITY'S INVESTMENTS AND CAUSING THE PREPARATION OF SCHEDULE K1 FORMS. BLAKE COMPLETED HIS FIRM'S ANNUAL COMPLIANCE QUESTIONNAIRES AND ANSWERED "YES" WHEN ASKED IF HE UNDERSTOOD HE WAS NOT PERMITTED TO COMMINGLE HIS FUNDS WITH A CLIENT'S FUNDS AND THAT HE WAS NOT TO ACCEPT A CLIENT'S CHECK MADE PAYABLE TO HIM OR ANY ENTITY OR PERSON ASSOCIATED WITH HIM FOR A SECURITIES TRANSACTION. BUT, BLAKE CONTINUED TO ACCEPT CHECKS MADE PAYABLE TO THE ENTITY AND HE COMMINGLED HIS FUNDS WITH CLIENT'S FUNDS IN THE ENTITY'S BANK ACCOUNT. BLAKE NEVER ADVISED HIS FIRMS ORALLY OR IN WRITING THAT HE WAS PARTICIPATING IN THE PRIVATE SECURITIES TRANSACTIONS. TO THE CONTRARY, BLAKE INDICATED EACH YEAR, IN ANNUAL COMPLIANCE QUESTIONNAIRES, THAT HE HAD NOT ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. THE REAL ESTATE DEVELOPMENT ENTERPRISE FILED FOR BANKRUPTCY AND, TO DATE, NONE OF THE INVESTORS IN THE ENTITY'S INVESTMENTS HAVE RECEIVED A RETURN OF THEIR PRINCIPAL OR ANY INTEREST OR OTHER PAYMENTS. BLAKE COMPLETED HIS ASSOCIATED FIRM QUESTIONNAIRES AND FALSELY ANSWERED "NO" WHEN ASKED IF HE HAD ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. BLAKE DID DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS ON AUGUST 31, 2003, SEPTEMBER 8, 2004, MARCH 14, 2005 AND OCTOBER 1, 2007. HOWEVER, BLAKE DID NOT DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS WHICH HE COMPLETED ON SEPTEMBER 18, 2006 AND JULY 31, 2008, INQUIRING INTO ALL OF HIS OUTSIDE BUSINESS ACTIVITIES. THE ENTITY'S SIZE, SCOPE AND ACTIVITY CHANGED SIGNIFICANTLY AFTER BLAKE'S

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Regulatory Action DRP

DRP Version 05/2009

INITIAL DISCLOSURE AND THESE CHANGES CAUSED THE INITIAL DISCLOSURE TO BECOME INACCURATE AND, GIVEN THE NATURE AND EXTENT OF ITS ACTIVITIES, MISLEADING. BLAKE DID NOT AMEND OR UPDATE THE OUTSIDE BUSINESS DISCLOSURE CONCERNING THE ENTITY AT ANY TIME. BLAKE'S FALSE AND INCOMPLETE INFORMATION ON COMPLIANCE QUESTIONNAIRES AND BY FAILING TO UPDATE AND CORRECT HIS OUTSIDE BUSINESS DISCLOSURE MISLED HIS FIRM. BY MISLEADING THE FIRM, BLAKE DEPRIVED HIS EMPLOYER OF INFORMATION THAT COULD HAVE RESULTED IN THE DETECTION OF HIS PARTICIPATION IN PRIVATE SECURITIES TRANSACTIONS, NOTWITHSTANDING HIS FAILURE TO MAKE AN AFFIRMATIVE DISCLOSURE IN THE QUESTIONNAIRES. BLAKE FAILED TO PROVIDE HIS FIRM WITH ANY NOTICE AT ALL, INCLUDING WRITTEN NOTICE, OF A SECOND LIMITED LIABILITY COMPANY HE CAUSED TO BE CREATED.

8. Current status: Final
9. Limitations or restrictions while pending: No
10. If on appeal:
- A. Appealed to:
- B. Date appealed/Explanation:
- C. Limitations or restrictions while on appeal:
11. Resolution details:
- A. Resolution detail: Decision & Order of Offer of Settlement
- B. Resolution date/Explanation: 09/09/2013
12. Final order: No
13. Sanction detail:
- A. Sanctions ordered: Civil and Administrative Penalty(ies)/Fine(s)
 Suspension
- B. Other sanctions:
- C. Sanction type details:
- Sanction type: Suspension
- Registration capacities affected: ALL CAPACITIES
- Duration (length of time)/Explanation: ONE YEAR
- Start date/Explanation: 10/07/2013
- End date/Explanation: 10/06/2014

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Regulatory Action DRP

DRP Version 05/2009

D. Requalification type details:

E. Monetary related sanction type details:

Monetary related sanction type: Civil and Administrative Penalty(ies)/Fine(s)

Total amount: \$10,000.00

Portion levied: \$10,000.00

Payment plan:

Payment plan current:

Date paid / Explanation:

Penalty waived: No

Amount:

14. Comment: WITHOUT ADMITTING OR DENYING THE ALLEGATIONS, BLAKE
CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF
FINDINGS; THEREFORE HE IS FINED \$10,000 AND SUSPENDED FROM
ASSOCIATION WITH ANY FINRA MEMBER IN ALL CAPACITIES FOR ONE
YEAR. THE SUSPENSION IS IN EFFECT FROM OCTOBER 7, 2013,
THROUGH OCTOBER 6, 2014.

Filing ID 35591445

Form (Form Version) U6 (05/2009)

Filing Date 11/13/2013

Source FINRA

Disclosure Questions Answered

Regulatory Action DRP

DRP Version 05/2009

1. Regulatory Action initiated by:

A. Initiated by: Self Regulatory Organization

B. Full name of regulator: FINRA

2. Sanction(s) sought: Other: N/A

3. Date initiated/Explanation: 03/21/2013

4. Docket/Case#: 2010021710501

5. Employing firm: CARILLON INVESTMENTS, INC. AND AMERITAS INVESTMENT
CORPORATION

6. Product type(s): Other: AN INVESTMENT CONTRACT

7. Allegation(s): FINRA RULE 2010, NASD RULES 2110, 3030, 3040: BLAKE FORMED AN
ENTITY SO THAT HE AND THREE COLLEAGUES COULD POOL FUNDS TO
INVEST IN COMMERCIAL REAL ESTATE PROJECTS AND THROUGH THIS
ENTITY HE PARTICIPATED IN PRIVATE SECURITIES TRANSACTIONS
WITHOUT PROVIDING TO HIS MEMBER FIRMS PRIOR WRITTEN NOTICE.

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Regulatory Action DRP

DRP Version 05/2009

THEREAFTER, THE ENTITY'S SIZE AND SCOPE EXPANDED BEYOND THE SEVERAL INDIVIDUALS WHO INITIALLY FORMED THE ENTITY. THE ENTITY INVESTED APPROXIMATELY \$3,200,000 IN REAL ESTATE PROPERTIES BEING DEVELOPED BY A REAL ESTATE DEVELOPMENT ENTERPRISE ORGANIZED AS A LIMITED LIABILITY COMPANY. THE INVESTED FUNDS WERE PROVIDED BY TWENTY-EIGHT INVESTORS AND TWELVE OF THESE INVESTORS WERE CUSTOMERS OF ONE OR THE OTHER OR OF BOTH OF BLAKE'S FIRMS AT THE TIME OF THEIR RESPECTIVE INVESTMENTS. BLAKE PERSONALLY INVESTED IN THE PROJECTS. EACH INVESTMENT OF FUNDS IN THE ENTITY WAS THE PURCHASE OF A SECURITY IN THE FORM OF AN INVESTMENT CONTRACT. BLAKE PARTICIPATED IN THE SALE OF THE ENTITY'S INVESTMENTS BY SOLICITING INVESTORS, RECEIVING, PROCESSING AND FORWARDING THE FUNDS THAT WERE INVESTED, PROVIDING THE INVESTORS WITH DOCUMENTATION EVIDENCING THEIR INVESTMENTS, FUNCTIONING AS THE POINT OF CONTACT BETWEEN THE INVESTORS AND A REAL ESTATE DEVELOPMENT ENTERPRISE, APPRISING THE INVESTORS OF THE STATUS OF THE ENTITY'S INVESTMENTS AND CAUSING THE PREPARATION OF SCHEDULE K1 FORMS. BLAKE COMPLETED HIS FIRM'S ANNUAL COMPLIANCE QUESTIONNAIRES AND ANSWERED "YES" WHEN ASKED IF HE UNDERSTOOD HE WAS NOT PERMITTED TO COMMINGLE HIS FUNDS WITH A CLIENT'S FUNDS AND THAT HE WAS NOT TO ACCEPT A CLIENT'S CHECK MADE PAYABLE TO HIM OR ANY ENTITY OR PERSON ASSOCIATED WITH HIM FOR A SECURITIES TRANSACTION. BUT, BLAKE CONTINUED TO ACCEPT CHECKS MADE PAYABLE TO THE ENTITY AND HE COMMINGLED HIS FUNDS WITH CLIENT'S FUNDS IN THE ENTITY'S BANK ACCOUNT. BLAKE NEVER ADVISED HIS FIRMS ORALLY OR IN WRITING THAT HE WAS PARTICIPATING IN THE PRIVATE SECURITIES TRANSACTIONS. TO THE CONTRARY, BLAKE INDICATED EACH YEAR, IN ANNUAL COMPLIANCE QUESTIONNAIRES, THAT HE HAD NOT ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. THE REAL ESTATE DEVELOPMENT ENTERPRISE FILED FOR BANKRUPTCY AND, TO DATE, NONE OF THE INVESTORS IN THE ENTITY'S INVESTMENTS HAVE RECEIVED A RETURN OF THEIR PRINCIPAL OR ANY INTEREST OR OTHER PAYMENTS. BLAKE COMPLETED HIS ASSOCIATED FIRM QUESTIONNAIRES AND FALSELY ANSWERED "NO" WHEN ASKED IF HE HAD ENGAGED IN PRIVATE SECURITIES TRANSACTIONS. BLAKE DID DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS ON AUGUST 31, 2003, SEPTEMBER 8, 2004, MARCH 14, 2005 AND OCTOBER 1, 2007. HOWEVER, BLAKE DID NOT DISCLOSE THE ENTITY AS AN OUTSIDE BUSINESS IN OUTSIDE BUSINESS ACTIVITY FORMS WHICH HE COMPLETED ON SEPTEMBER 18, 2006 AND JULY 31, 2008, INQUIRING INTO ALL OF HIS OUTSIDE BUSINESS ACTIVITIES. THE ENTITY'S SIZE, SCOPE AND ACTIVITY CHANGED SIGNIFICANTLY AFTER BLAKE'S INITIAL DISCLOSURE AND THESE CHANGES CAUSED THE INITIAL DISCLOSURE TO BECOME INACCURATE AND, GIVEN THE NATURE AND EXTENT OF ITS ACTIVITIES, MISLEADING. BLAKE DID NOT AMEND OR UPDATE THE OUTSIDE BUSINESS DISCLOSURE CONCERNING THE ENTITY AT ANY TIME. BLAKE'S FALSE AND INCOMPLETE INFORMATION ON COMPLIANCE QUESTIONNAIRES AND BY FAILING TO UPDATE AND

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Regulatory Action DRP

DRP Version 05/2009

CORRECT HIS OUTSIDE BUSINESS DISCLOSURE MISLED HIS FIRM. BY MISLEADING THE FIRM, BLAKE DEPRIVED HIS EMPLOYER OF INFORMATION THAT COULD HAVE RESULTED IN THE DETECTION OF HIS PARTICIPATION IN PRIVATE SECURITIES TRANSACTIONS, NOTWITHSTANDING HIS FAILURE TO MAKE AN AFFIRMATIVE DISCLOSURE IN THE QUESTIONNAIRES. BLAKE FAILED TO PROVIDE HIS FIRM WITH ANY NOTICE AT ALL, INCLUDING WRITTEN NOTICE, OF A SECOND LIMITED LIABILITY COMPANY HE CAUSED TO BE CREATED.

8. Current status: Final

9. Limitations or restrictions while pending: No

10. If on appeal:

A. Appealed to:

B. Date appealed/Explanation:

C. Limitations or restrictions while on appeal:

11. Resolution details:

A. Resolution detail: Decision & Order of Offer of Settlement

B. Resolution date/Explanation: 09/09/2013

12. Final order: No

13. Sanction detail:

A. Sanctions ordered: Civil and Administrative Penalty(ies)/Fine(s)
Suspension

B. Other sanctions:

C. Willful violation or failure to supervise: No

i. Willfully violated:

ii. Willfully aided, abetted, counseled, commanded, induced, or procured:

iii. Failed reasonably to supervise another person:

D. Sanction type details:

Sanction type: Suspension

Individual 2022161 - BLAKE, MICHAEL JAMES**Reportable Events****Regulatory Action DRP****DRP Version 05/2009**

Registration capacities affected: ALL CAPACITIES

Duration (length of time)/Explanation: ONE YEAR

Start date/Explanation: 10/07/2013

End date/Explanation: 10/06/2014

E. Requalification type details:

F. Monetary related sanction type details:

Monetary related sanction type: Civil and Administrative Penalty(ies)/Fine(s)

Total amount: \$10,000.00

Portion levied: \$10,000.00

Payment plan:

Payment plan current:

Date paid / Explanation: 10/04/2013

Penalty waived: No

Amount:

14. Comment: WITHOUT ADMITTING OR DENYING THE ALLEGATIONS, BLAKE CONSENTED TO THE DESCRIBED SANCTIONS AND TO THE ENTRY OF FINDINGS; THEREFORE HE IS FINED \$10,000 AND SUSPENDED FROM ASSOCIATION WITH ANY FINRA MEMBER IN ALL CAPACITIES FOR ONE YEAR. THE SUSPENSION IS IN EFFECT FROM OCTOBER 7, 2013, THROUGH OCTOBER 6, 2014. FINE PAID IN FULL 10/04/13.

Occurrence#	1656625	Disclosure Type	Customer Complaint
FINRA Public Disclosable	Yes	Reportable	Yes
Material Difference in Disclosure	No		

Filing ID	34866753	Form (Form Version)	U4 (05/2009)
Filing Date	07/17/2013		
Source	10674 - MID ATLANTIC CAPITAL CORPORATION		
Disclosure Questions Answered	14I(1)(a)		

Customer Complaint DRP**DRP Version 05/2009**

1. Customer name(s): PAM PONT

2. Residence information:

A. Customer(s) state of residence: Arizona

B. Other state(s) of residence/ detail:

3. Employing firm: AMERITAS INVESTMENT CORP.

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

4. Allegation(s): CLIENT ALLEGES NEGLIGENT MISREPRESENTATION, FRAUD, AND BREACH OF FIDUCIARY DUTY.
5. Product type(s): Annuity-Variable
Promissory Note
6. Alleged compensatory damage amount: \$50,000.00
Explanation: COMPLAINANT SEEKS DAMAGES AS DETERMINED AT TRIAL.
7. Customer complaints:
- A. Oral complaint: No
- B. Written complaint: Yes
- C. Arbitration/CFTC reparation or civil litigation: No
- i. Arbitration/Reparation forum court name/location:
- ii. Docket/Case#:
- iii. Arbitration or civil litigation filing date:
- D. Date received by/Served on firm/Explanation: 04/12/2013
8. Complaint, arbitration/CFTC reparation, civil litigation pending: No
9. Complaint, arbitration/CFTC reparation or civil status: Evolved into Civil litigation (the individual is a named party)
10. Status date/Explanation: 06/05/2013
11. Settlement/Award/Monetary judgment:
- A. Award amount:
- B. Contribution amount:
12. Arbitration/CFTC reparation information:
- A. Arbitration/CFTC reparation claim filed with:
- B. Docket/Case#:
- C. Date notice/Process was served/Explanation:
13. Pending arbitration/ CFTC reparation:
14. Disposition:
15. Disposition date/Explanation:
16. Monetary compensation details:

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

- A. Total compensation amount:
- B. Contribution amount:
17. Court in which case was filed: State Court
- A. Name of court: SUPERIOR COURT OF THE STATE OF AZ IN AND FOR THE COUNTY OF MARICOPA
- B. Location of court: MARICOPA COUNTY AZ
- C. Docket/Case#: CV2013-007824
18. Date notice/process was served/Explanation: 06/06/2013
19. Pending civil litigation: Yes
20. Civil litigation status:
21. Disposition date/Explanation:
22. Monetary compensation details:
- A. Total compensation amount:
- B. Contribution amount:
23. If action is currently on appeal:
- A. Appeal date/Explanation:
- B. Court appeal filed with:
- i. Name of court:
- ii. Location of court:
- iii. Docket/Case#:
24. Comment:

Filing ID 34791181

Form (Form Version) U5 (05/2009)

Filing Date 07/01/2013

Source 14869 - AMERITAS INVESTMENT CORP.

Disclosure Questions Answered 7E(1)(a)

Customer Complaint DRP

DRP Version 05/2009

1. Customer name(s): PAM PONT
2. Residence information:
- A. Customer(s) state of residence: Arizona
- B. Other state(s) of residence/ detail:
3. Employing firm: AMERITAS INVESTMENT CORP.

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

4. Allegation(s): CLIENT ALLEGES NEGLIGENT MISREPRESENTATION, FRAUD, AND A BREACH OF FIDUCIARY DUTY.
5. Product type(s): Annuity-Variable
Promissory Note
6. Alleged compensatory damage amount: \$50,000.00
Explanation: COMPLAINANT SEEKS DAMAGES AS DETERMINED AT TRIAL.
7. Customer complaints:
- A. Oral complaint: No
- B. Written complaint: Yes
- C. Arbitration/CFTC reparation or civil litigation: No
- i. Arbitration/Reparation forum court name/location:
- ii. Docket/Case#:
- iii. Arbitration or civil litigation filing date:
- D. Date received by/Served on firm/Explanation: 04/12/2013
8. Complaint, arbitration/CFTC reparation, civil litigation pending: No
9. Complaint, arbitration/CFTC reparation or civil status: Evolved into Civil litigation (the individual is a named party)
10. Status date/Explanation: 06/05/2013
11. Settlement/Award/Monetary judgment:
- A. Award amount:
- B. Contribution amount:
12. Arbitration/CFTC reparation information:
- A. Arbitration/CFTC reparation claim filed with:
- B. Docket/Case#:
- C. Date notice/Process was served/Explanation:
13. Pending arbitration/ CFTC reparation:
14. Disposition:
15. Disposition date/Explanation:
16. Monetary compensation details:

Individual 2022161 - BLAKE, MICHAEL JAMES**Reportable Events****Customer Complaint DRP****DRP Version 05/2009**

A. Total compensation amount:

B. Contribution amount:

17. Court in which case was filed:

State Court

A. Name of court:

SUPERIOR COURT OF THE STATE OF AZ IN AND FOR THE
COUNTY OF MARICOPA

B. Location of court:

MARICOPA COUNTY AZ

C. Docket/Case#:

CV2013-007824

18. Date notice/process was
served/Explanation:

06/06/2013

19. Pending civil litigation:

Yes

20. Civil litigation status:

21. Disposition date/Explanation:

22. Monetary compensation details:

A. Total compensation amount:

B. Contribution amount:

23. If action is currently on appeal:

A. Appeal date/Explanation:

B. Court appeal filed with:

i. Name of court:

ii. Location of court:

iii. Docket/Case#:

24. Comment:

Occurrence# 1687233**FINRA Public Disclosable Yes****Material Difference in Disclosure No****Disclosure Type****Reportable****Customer Complaint****Yes****Filing ID 35915917****Form (Form Version) U5 (05/2009)****Filing Date 01/02/2014****Source 14869 - AMERITAS INVESTMENT CORP.****Disclosure Questions Answered 7E(1)(a)****Customer Complaint DRP****DRP Version 05/2009**

1. Customer name(s):

STANLEY DYCK

2. Residence information:

A. Customer(s) state of residence:

New Mexico

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

B. Other state(s) of residence/ detail:

3. Employing firm:

AMERITAS INVESTMENT CORP.

4. Allegation(s):

CLAIMANT ALLEGES A BREACH OF FIDUCIARY DUTY, FIDUCIARY MISCONDUCT & FRAUD. ALLEGED ACTIVITY BETWEEN 7/10/2008 - 12/3/2012.

5. Product type(s):

Promissory Note

6. Alleged compensatory damage amount: \$450,000.00

Explanation:

ADDITIONAL DAMAGES TO BE DETERMINED AT TRIAL.

7. Customer complaints:

A. Oral complaint:

B. Written complaint:

C. Arbitration/CFTC reparation or civil litigation:

i. Arbitration/Reparation forum court name/location:

ii. Docket/Case#:

iii. Arbitration or civil litigation filing date:

D. Date received by/Served on firm/Explanation:

8. Complaint, arbitration/CFTC reparation, civil litigation pending:

9. Complaint, arbitration/CFTC reparation or civil status:

10. Status date/Explanation:

11. Settlement/Award/Monetary judgment:

A. Award amount:

B. Contribution amount:

12. Arbitration/CFTC reparation information:

A. Arbitration/CFTC reparation claim filed with:

B. Docket/Case#:

C. Date notice/Process was served/Explanation:

13. Pending arbitration/ CFTC reparation:

14. Disposition:

Individual 2022161 - BLAKE, MICHAEL JAMES

Reportable Events

Customer Complaint DRP

DRP Version 05/2009

15. Disposition date/Explanation:
16. Monetary compensation details:
- A. Total compensation amount:
- B. Contribution amount:
17. Court in which case was filed: Federal Court
- A. Name of court: UNITED STATES DISTRICT COURT - DISTRICT OF ARIZONA
- B. Location of court: PHOENIX ARIZONA
- C. Docket/Case#: 2:13-CV-02461-MEA
18. Date notice/process was served/Exolanation: 12/05/2013
19. Pending civil litigation: Yes
20. Civil litigation status:
21. Disposition date/Explanation:
22. Monetary compensation details:
- A. Total compensation amount:
- B. Contribution amount:
23. If action is currently on appeal:
- A. Appeal date/Explanation:
- B. Court appeal filed with:
- i. Name of court:
- ii. Location of court:
- iii. Docket/Case#:

24. Comment:

Regulator Archive and Z Records

Occurrence#	1639859	Disclosure Type	Investigation
FINRA Public Disclosable	No	Reportable	No
Material Difference in Disclosure	No		
Filing ID	34575752	Form (Form Version)	U4 (05/2009)
Filing Date	05/20/2013		
Source	10674 - MID ATLANTIC CAPITAL CORPORATION		
Disclosure Questions Answered	14G(2)		

Investigation DRP

DRP Version 05/2009

1. Investigation initiated by:

Individual 2022161 - BLAKE, MICHAEL JAMES

Regulator Archive and Z Records

Investigation DRP

DRP Version 05/2009

- A. Notice received from: SRO
- B. Full name of regulator: FINRA
2. Notice date/Explanation: 11/21/2012
3. Nature of investigation: PRELIMINARY DETERMINATION BY FINRA ALLEGING RR ENGAGED IN UNDISCLOSED PRIVATE SECURITIES TRANSACTIONS BETWEEN APPROXIMATELY FEBRUARY 2006 AND MARCH 2007 IN VIOLATION OF NASD CONDUCT RULES 3040 AND 2110; RR VIOLATED NASD CONDUCT RULES 3030 AND 2110 BY ENGAGING IN AN UNDISCLOSED OUTSIDE BUSINESS ACTIVITY; AND VIOLATION OF FINRA RULE 2010 AND NASD RULE 2110 BY MISLEADING HIS FIRM CONCERNING HIS PRIVATE SECURITIES TRANSACTIONS.
4. Pending investigation: No
5. Resolution details:
- A. Date resolved/Explanation: 03/21/2013
- B. Investigation resolution: Closed - Regulatory Action Initiated
6. Comment:

Occurrence#	1647549	Disclosure Type	Judgment/Lien
FINRA Public Disclosable	No	Reportable	No
Material Difference in Disclosure	No		
Filing ID	34652427	Form (Form Version)	U4 (05/2009)
Filing Date	06/05/2013		
Source	10674 - MID ATLANTIC CAPITAL CORPORATION		
Disclosure Questions Answered	14M		

Judgment/Lien DRP

DRP Version 05/2009

1. Judgment/Lien Amount: \$118,569.00
2. Judgment/Lien holder: IRS
3. Judgment/Lien type: Tax
4. Date filed/Explanation: 08/17/2012
5. Court: Federal Court
- A. Name of court: IRS
- B. Location of court: MESA, AZ
- C. Docket/Case#: xxxxxxxxxxxx
6. Outstanding: Yes
7. Not outstanding:
- A. Disposition date/Explanation: 06/04/2013

CRD® or IARD(TM) System Current As Of: 03/02/2014

Snapshot - Individual

CRD® or IARD(TM) System Report provided to: Arizona

Request Submitted: 3/3/2014 10:44:19 AM

Page 35 of 35

Individual 2022161 - BLAKE, MICHAEL JAMES

Regulator Archive and Z Records

Judgment/Lien DRP

DRP Version 05/2009

B. Resolution: Released

8. Comment: LIEN HAS BEEN PAID.

STATE OF ARIZONA



Office of the CORPORATION COMMISSION

The Executive Director of the Arizona Corporation Commission does hereby certify that the attached copy of the following document:

ARTICLES OF ORGANIZATION, 05/10/2002

consisting of 2 pages, is a true and complete copy of the original of said document on file with this office for:

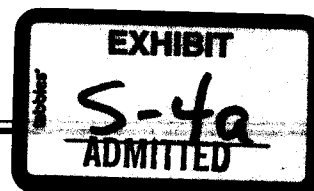
LONGEST DRIVE, LLC
ACC file number: L-1029797-0

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission on this date:
March 5, 2014.



Jodi A. Jerich
Jodi A. Jerich, Executive Director

By: *James Bazel*
James Bazel



**DO NOT PUBLISH
THIS SECTION**

ARTICLE 1

The company name must contain an ending which may be "limited liability company," "limited company," or the abbreviations "LLC," "L.C.," "LLC" or "LC". If you are the holder or assignee of a tradename or trademark, attach Declaration of Tradename Holder form.

ARTICLE 2

May be in care of the statutory agent.

ARTICLE 3

The statutory agent must provide both a physical and mailing address. If statutory agent has P.O. Box, then they must provide a physical description of their street address/location. The agent must sign the Articles or provide a consent to acceptance of appointment.

ARTICLES 4

Complete this section only if you desire to select a date or occurrence when the company will dissolve. If perpetual duration is desired, leave this section blank.

ARTICLE 5.a.

Check which management structure will be applicable to your company.

ARTICLES OF ORGANIZATION

OF

Hayabusa Longest Drive, LLC
(An Arizona Limited Liability Company)

L1029797-0

1. Name. The name of the limited liability company is:
Longest Drive, LLC - okay
2. Registered Office. The address of the registered office in Arizona is: _____
9900 N. 52nd Street
Paradise Valley, AZ 85253
located in the County of Maricopa
3. Statutory Agent. (In Arizona) The name and address of the statutory agent of the company is: Michael J. Blake
9900 N. 52nd Street
Paradise Valley, AZ 85253
4. Dissolution. The latest date, if any, on which the limited liability company must dissolve is _____
- 5.a. Management.
[] Management of the limited liability company is vested in a manager or managers. The names and addresses of each person who is a manager AND each member who owns a twenty percent or greater interest in the capital or profits of the limited liability company are:
☒ Management of the limited liability company is reserved to the members. The names and addresses of each person who is a member are:

DO NOT PUBLISH
THIS SECTION

5.b.

Name:

Michael J. Blake

☒ member

☐ manager

☐ member

☐ manager

Address:

9900 N. 52nd Place

City, State, Zip:

Paradise Valley, AZ 85253

Name:

David Rudick

☒ member

☐ manager

☐ member

☐ manager

Address:

5918 Billarney Lane

City, State, Zip:

Edina, MN 55436

ARTICLE 5.b.

Depending upon your selection in 5.a., provide the names and addresses of the managers and members of the organization. Check the applicable title for each person. A member managed company cannot contain a manager or manager.

The person(s) executing this document need not be member(s) of the company.

Your fax and phone number is optional.

The agent must consent to the appointment by executing the consent.

See A.R.S. §29-601 et seq. for more info.

LI-0004
Rev. 3/2002

EXECUTED this 26 day of April, 2002.

Michael J. Blake

[Signature]

[Signature]

Michael J. Blake

[Print Name Here]

[Print Name Here]

PHONE 480-991-4373

FAX 480-991-4469

Acceptance of Appointment By Statutory Agent

I, Michael J. Blake, having been designated to act as Statutory Agent, hereby consent to act in that capacity until removed or resignation is submitted in accordance with the Arizona Revised Statutes.

Michael J. Blake

Signature of Statutory Agent

STATE OF ARIZONA



Office of the CORPORATION COMMISSION

The Executive Director of the Arizona Corporation Commission does hereby certify that the attached copy of the following document:

ARTICLES OF AMENDMENT, 10/01/20091

consisting of 1 pages, is a true and complete copy of the original of said document on file with this office for:

LONGEST DRIVE, LLC
ACC file number: L-1029797-0

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission on this date: March 5, 2014.



Jodi A. Jerich

Jodi A. Jerich, Executive Director

By: *James Bazel*

James Bazel





AZ CORPORATION COMMISSION
FILED

OCT 01 2009

ARTICLES OF AMENDMENT TO
ARTICLES OF ORGANIZATION

FILE NO. L-10297970 OF LONGEST DRIVE, L.L.C.

1. The name of the limited liability company is: LONGEST DRIVE, L.L.C.;
2. The Articles of Organization were originally filed with the Arizona Corporation Commission on May 10, 2002;

THE AMENDMENTS SO ADOPTED:

1. **MEMBERS**— The name and address of the Member of the Company who owns 20% or more of the Company is as follows:

MICHAEL J. BLAKE, CO-TRUSTEE OF THE FULLY AMENDED AND
RESTATED MICHAEL J. BLAKE AND JANICE L. BLAKE TRUST,
DATED SEPTEMBER 12, 1996, AS AMENDED
9900 N. 52nd St.
Paradise Valley, AZ 85253

2. **MANAGEMENT** - Management of the limited liability company is vested in the manager, whose name and address is:

MICHAEL J. BLAKE
9900 N. 52nd St.
Paradise Valley, AZ 85253

IN WITNESS WHEREOF, the below-signed Manager executes this Amendment to the Articles of Organization as of this 1st day of September, 2009.

LONGEST DRIVE, L.L.C.,
an Arizona limited liability company

By: 

MICHAEL J. BLAKE, Manager

COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

JODI JERICH
EXECUTIVE DIRECTOR

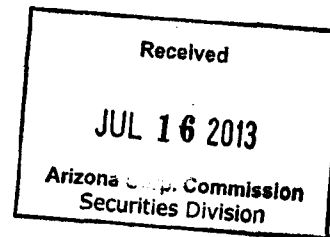


MATTHEW J. NEUBERT
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007
TELEPHONE: (602) 542-4242
FAX: (602) 396-5661
E-MAIL: securitiesdiv@azcc.gov

ARIZONA CORPORATION COMMISSION

June 24, 2013



Jeanine Colditz Devine, VP
Mid Atlantic Capital Corporation
1251 Waterfront Place, Suite 510
Pittsburgh, PA 15222-6368

RE: Pending Salesman Application for Blake, Michael J. (CRD #2022161)



Dear Ms. Colditz-Devine:

The Securities Division ("Division") received notification through WebCRD that the above-referenced applicant has requested registration in Arizona as a salesman. After a preliminary review of the application, the Division has the following comments:

1. It appears that the Applicant is affiliated with Crimson Crossings Retail Investors, LLC. The Division requests clarification of this activity including an explanation of what business is being conducted through this entity. If the entity is no longer active, please advise whether or not articles of termination have or will be filed or that such other similar action will be taken with respect to the entity.
2. The Division notes that the Applicant's WebCRD record contains Reportable, Legacy or Archive information. Please provide the following:
 - a. A notarized narrative from Michael J. Blake explaining in precise detail the applicant's conduct with respect to all reportable disclosures on the applicant's U-4. The narrative is to include a summary of the disposition and present status of this matter. **NOTE: Only an original notarized document will be accepted; a photocopy will not be considered responsive to this request.**
 - b. Copies of relevant documents (i.e. initial complaint, pleadings and any other relevant documentation verifying final resolution).

Jeanine Colditz Devine
June 24, 2013
Page 2 of 2

Only responses tendered in writing will be considered as adequately responding to this letter. Sending a copy of the U-4 will not be considered a sufficient response. In lieu of providing the foregoing information, the applicant may withdraw the application for registration by filing a Form U-5 with this Division.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra J. Franklin". The signature is fluid and cursive, with the first name "Sandra" being the most prominent part.

Sandra J. Franklin
Registration & Licensing Analyst

SJF/sjf

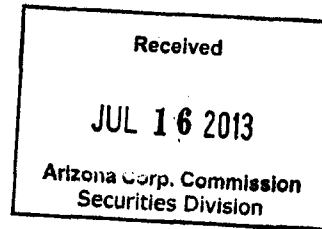
ACC000003
FILE #8451

180 Promenade Circle, Suite 220
Sacramento, CA 95834
(916) 286-7850 Fax: (916) 286-7860
www.macg.com

Mid Atlantic Capital Corporation

July 15, 2013

Arizona Corporation Commission
Securities Division
Attn: Sandra J. Franklin
1300 West Washington, Third Floor
Phoenix, AZ 85007



Re: Pending Salesman Application for Blake, Michael J. (CRD # 2022161)

Dear Ms. Franklin,

Per your letter to Mid Atlantic Capital Corporation dated June 24, 2013, I am attaching the requested information regarding Mr. Blake, including Crimson Crossing Retail Investors, LLC info and the notarized narrative from Mr. Blank about the reportable disclosures on his U4 with copies of the relevant documents.

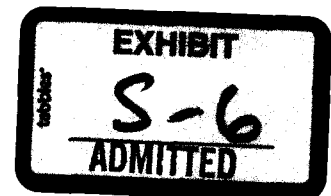
If you should need anything further regarding Mr. Blake's registration with Mid Atlantic Capital Corporation, please do not hesitate to contact me either by phone at 916-286-7843 or by email at jbrown@macg.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie Ann Brown".

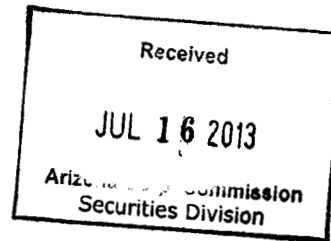
Julie Ann Brown
Licensing & Registration Administrator

attachment



ACC000001
FILE #8451

Arizona Corporation Commission
Sandra J. Franklin
Registration and Licensing Analyst
1200 West Washington
Phoenix, AZ 85007



Dear Ms. Franklin,

RE: Pending Salesman Application for Blake, Michael J. (CRD #2022161)

Thank you for your consideration for registering my securities license in the state of Arizona. Here is some background information. I have been security licensed since 1990, and security licensed in the State of Arizona since 1999. In my entire career I have never had a complaint from a client regarding my handling of their security accounts. The complaints on my U-4 all are the result of an approved outside business activity that I have been apart of since 2002. My broker dealer approved this outside business activity, Longest Drive LLC, every year from 2002-2009. Through Longest Drive LLC we invested in commercial real estate projects. I was a member of Longest Drive LLC. I did not receive any compensation, additional or preferred benefits. I was an investor equal to all other members. Unfortunately in 2008 the world experienced a global real estate meltdown. The developer we were invested with filed for bankruptcy in 2010 and closed their doors. Longest Drive LLC has two active projects that were funded in 2006. There have been no new projects and there will never be any new projects. At the conclusion of these two projects, Longest Drive LLC will be closed.

I retired from Ameritas Investment Corp on February 28, 2013 and have spent the last four months in search of a new broker dealer. After extensive due diligence by both sides, I have agreed to join Mid Atlantic Capital Group. It was during this process that I was notified that Carillon Investment Corp, now Ameritas Investment Corp. had stopped paying for my Investment Advisor designation in 2003 and therefore my series 65 is no longer active in the state of Arizona. I am currently studying for my series 65 exam and anticipate taking this exam the first week in August.

On May 24, 2013 FINRA approved my registration.

Attached are the explanations and documents that you had requested. I do appreciate your consideration for my request to be registered in the State of Arizona.

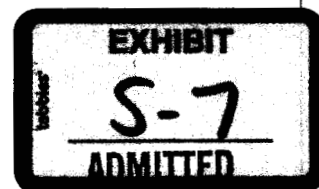
Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Blake".

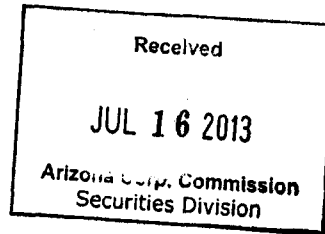
Michael J. Blake

7/10/13

A handwritten signature in black ink, appearing to read "Sandra J. Franklin".



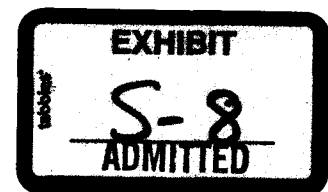
ACC000010
FILE #8451



Crimson Crossing Retail Investors LLC

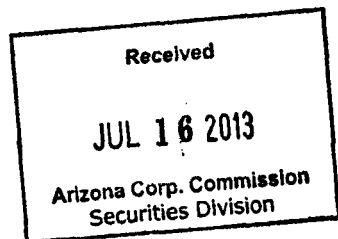
In November 2007, Mr. and Mrs. Blake made a personal investment of \$250,000.00 into Crimson Crossings Retail Investors LLC. This project was being developed by Kinetic Development Inc. Mr. and Mrs. Blake are not involved with Kinetic Developments Inc. Crimson Crossing is a raw piece of land located at Southern and Crimson in Phoenix just off Hwy 60 and across from a hospital. Mr. and Mrs. Blake after careful examination of marketing materials and proforma's, decided to invest. After the down turn of the real estate market in Phoenix, Kinetic Development Inc. ran into serious financial issues with Crimson Crossing Retail Investors. On December 31, 2009 Kinetic Companies Inc. was able to successfully transfer the title to another entity Ocean Property Holdings LLC. Mr. and Mrs. Blake are not involved with Ocean Properties. Ocean Property Holding was able to infuse capital into this project to keep it moving forward. At this time the terms of this capital infusion virtually eliminated any potential profit for their original investors and the terms were so skewed toward Ocean Property Holding the likely hood of ever seeing our principal back was diminished greatly.

As of today the property is still undeveloped and there is no chance that we will ever receive our principal back. Kinetic Companies still sends us a K-1 for this project. (See attached)



ACC000004
FILE #8451

Randall S. Joselit, C.P.A., P.C.
1430 E. Missouri Avenue, Suite 105
Phoenix, AZ 85014



MICHAEL J BLAKE AND JANICE L BLAKE
TRUST DATED SEPTEMBER 12, 1996



ACC000005
FILE #8451

Randall S. Joselit, C.P.A., P.C.
1430 E. Missouri Avenue, Suite 105
Phoenix, AZ 85014
602-264-9315

March 25, 2013

CONFIDENTIAL

MICHAEL J BLAKE AND JANICE L BLAKE
TRUST DATED SEPTEMBER 12, 1996

[REDACTED], AZ [REDACTED]

Dear MICHAEL:

We have prepared the enclosed copy of your Schedule K-1 for CRISMON CROSSINGS RETAIL limited liability company. It contains your share of the limited liability company's items of income/loss, deductions, credits, and other information for the limited liability company's tax year ended December 31, 2012. These items are to be reported on your federal income tax return; therefore, this schedule should be retained with your tax records and documentation.

Also enclosed is state K-1 information, if applicable. This information should also be retained with your tax records and documentation.

Also enclosed is your basis information. This information consists of your basis in the limited liability company and, if applicable, your share of any suspended or disallowed losses. Retain this information with your tax records; it may be needed to complete your federal income tax return.

If you have any questions, or if we can be of assistance in any way, please call.

Sincerely,

Randall S. Joselit, C.P.A., P.C.

ACC000006
FILE #8451

651112

OMB No. 1545-0099

Partner# 2
Schedule K-1
(Form 1065)

2012

Department of the Treasury
 Internal Revenue Service

For calendar year 2012, or tax

year beginning _____
 ending _____

**Partner's Share of Income, Deductions,
 Credits, etc.**

▶ See back of form and separate instructions.

☐ Final K-1☐ Amended K-1

**Part III Partner's Share of Current Year Income,
 Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
12	Section 179 deduction		
13	Other deductions		
14	Self-employment earnings (loss)		
		19	Distributions
		20	Other information

*See attached statement for additional information.

For IRS Use Only

Part I Information About the Partnership

A Partnership's employer identification number

[REDACTED]

B Partnership's name, address, city, state, and ZIP code

**CRISMON CROSSINGS RETAIL
 INVESTORS, LLC
 2390 E CAMELBACK RD., SUITE 204
 PHOENIX AZ 85016**

C IRS Center where partnership filed return

Ogden, UT 84201-0011

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

[REDACTED]

F Partner's name, address, city, state, and ZIP code

**MICHAEL J BLAKE AND JANICE L BLAKE
 TRUST DATED SEPTEMBER 12, 1996**

[REDACTED] AZ [REDACTED]

G ☐ General partner or LLC member-manager☒ Limited partner or other LLC memberH ☒ Domestic partner☐ Foreign partnerI What type of entity is this partner? **Trust**J If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here (see instructions) ☐

K Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	8.132000 %	8.132000 %
Loss	8.132000 %	8.132000 %
Capital	8.132000 %	8.132000 %

L Partner's share of liabilities at year end:

Nonrecourse \$ _____
 Qualified nonrecourse financing \$ _____
 Recourse \$ **8**

M Partner's capital account analysis:

Beginning capital account \$ **246,581**
 Capital contributed during the year \$ _____
 Current year increase (decrease) \$ _____
 Withdrawals & distributions \$ (_____)
 Ending capital account \$ **246,581**

☒ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain) _____

N Did the partner contribute property with a built-in gain or loss?

☐ Yes ☒ No

If "Yes," attach statement (see instructions)

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

		Code	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows.			
Passive loss	Report on	J Work opportunity credit	
Passive income	See the Partner's Instructions	K Disabled access credit	
Nonpassive loss	Schedule E, line 28, column (g)	L Empowerment zone and renewal community employment credit	
Nonpassive income	Schedule E, line 28, column (h)	M Credit for increasing research activities	See the Partner's Instructions
2. Net rental real estate income (loss)	See the Partner's Instructions	N Credit for employer social security and Medicare taxes	
3. Other net rental income (loss)		O Backup withholding	
Net income	Schedule E, line 28, column (g)	P Other credits	
Net loss	See the Partner's Instructions		
4. Guaranteed payments	Schedule E, line 28, column (j)	16. Foreign transactions	
5. Interest income	Form 1040, line 8a	A Name of country or U.S. possession	
6a. Ordinary dividends	Form 1040, line 9a	B Gross income from all sources	Form 1116, Part I
6b. Qualified dividends	Form 1040, line 9b	C Gross income sourced at partner level	
7. Royalties	Schedule E, line 4	Foreign gross income sourced at partnership level	
8. Net short-term capital gain (loss)	Schedule D, line 5	D Passive category	Form 1116, Part I
9a. Net long-term capital gain (loss)	Schedule D, line 12	E General category	
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)	F Other	
9c. Unrecaptured section 1250 gain	See the Partner's Instructions	Deductions allocated and apportioned at partner level	
10. Net section 1231 gain (loss)	See the Partner's Instructions	G Interest expense	Form 1116, Part I
11. Other income (loss)		H Other	Form 1116, Part I
Code		Deductions allocated and apportioned at partnership level to foreign source income	
A Other portfolio income (loss)	See the Partner's Instructions	I Passive category	
B Involuntary conversions	See the Partner's Instructions	J General category	Form 1116, Part I
C Sec. 1256 contracts & straddles	Form 6781, line 1	K Other	
D Mining exploration costs recapture	See Pub. 535	Other information	
E Cancellation of debt	Form 1040, line 21 or Form 982	L Total foreign taxes paid	Form 1116, Part II
F Other income (loss)	See the Partner's Instructions	M Total foreign taxes accrued	Form 1116, Part II
12. Section 179 deduction	See the Partner's Instructions	N Reduction in taxes available for credit	Form 1116, line 12
13. Other deductions		O Foreign trading gross receipts	Form 8873
A Cash contributions (50%)		P Extraterritorial income exclusion	Form 8873
B Cash contributions (30%)		Q Other foreign transactions	See the Partner's Instructions
C Noncash contributions (50%)	See the Partner's Instructions	17. Alternative minimum tax (AMT) items	
D Noncash contributions (30%)		A Post-1986 depreciation adjustment	
E Capital gain property to a 50% organization (30%)		B Adjusted gain or loss	See the Partner's Instructions and the instructions for Form 6251
F Capital gain property (20%)		C Depletion (other than oil & gas)	
G Contributions (100%)		D Oil, gas, & geothermal—gross income	
H Investment interest expense	Form 4952, line 1	E Oil, gas, & geothermal—deductions	
I Deductions—royalty income	Schedule E, line 19	F Other AMT items	
J Section 59(e)(2) expenditures	See the Partner's Instructions	18. Tax-exempt income and nondeductible expenses	
K Deductions—portfolio (2% floor)	Schedule A, line 23	A Tax-exempt interest income	Form 1040, line 8b
L Deductions—portfolio (other)	Schedule A, line 28	B Other tax-exempt income	See the Partner's Instructions
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29	C Nondeductible expenses	See the Partner's Instructions
N Educational assistance benefits	See the Partner's Instructions	19. Distributions	
O Dependent care benefits	Form 2441, line 12	A Cash and marketable securities	
P Preproductive period expenses	See the Partner's Instructions	B Distribution subject to section 737	See the Partner's Instructions
Q Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions	C Other property	
R Pensions and IRAs	See the Partner's Instructions	20. Other information	
S Reforestation expense deduction	See the Partner's Instructions	A Investment income	Form 4952, line 4a
T Domestic production activities information	See Form 8903 instructions	B Investment expenses	Form 4952, line 5
U Qualified production activities income	Form 8803, line 7b	C Fuel tax credit information	Form 4136
V Employer's Form W-2 wages	Form 8803, line 17	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
W Other deductions	See the Partner's Instructions	E Basis of energy property	See the Partner's Instructions
14. Self-employment earnings (loss)		F Recapture of low-income housing credit (section 42(j)(6))	Form 8611, line 6
Note. If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.		G Recapture of low-income housing credit (other)	Form 8611, line 8
A Net earnings (loss) from self-employment	Schedule SE, Section A or B	H Recapture of investment credit	See Form 4255
B Gross farming or fishing income	See the Partner's Instructions	I Recapture of other credits	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions	J Look-back interest—completed long-term contracts	See Form 8697
15. Credits		K Look-back interest—income forecast method	See Form 8666
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings		L Dispositions of property with section 179 deductions	
B Low-income housing credit (other) from pre-2008 buildings		M Recapture of section 179 deduction	
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	See the Partner's Instructions	N Interest expense for corporate partners	
D Low-income housing credit (other) from post-2007 buildings		O Section 453(j)(3) information	
E Qualified rehabilitation expenditures (rental real estate)		P Section 453A(c) information	
F Other rental real estate credits		Q Section 1260(b) information	
G Other rental credits		R Interest allocable to production expenditures	See the Partner's Instructions
H Undistributed capital gains credit	Form 1040, line 71; check box a	S CCF nonqualified withdrawals	
I Alcohol and cellulosic biofuel fuels credit	See the Partner's Instructions	T Depletion information—oil and gas	
		U Amortization of reforestation costs	
		V Unrelated business taxable income	
		W Precontribution gain (loss)	
		X Section 108(i) information	
		Y Other information	

Partner# 2
ARIZONA FORM
165
Schedule K-1

**Resident Partner's Share of Adjustment
to Partnership Income**

2012

CHECK ONE: Original <input checked="" type="checkbox"/> Amended <input type="checkbox"/>		For the <input checked="" type="checkbox"/> calendar year 2012 or <input type="checkbox"/> fiscal year beginning _____ and ending _____	
Partner's identifying number [REDACTED]		Partnership's employer identification number [REDACTED]	
Partner's name, address, and ZIP code MICHAEL J BLAKE AND JANICE L BLAKE TRUST DATED SEPTEMBER 12, 1996 [REDACTED] AZ [REDACTED]		Partnership's name, address, and ZIP code CRISMON CROSSINGS RETAIL INVESTORS, LLC 2390 E CAMELBACK RD., SUITE 204 PHOENIX AZ 85016	

Partner's percentage of:

Profit sharing

Loss sharing

Ownership of capital

Before change
or termination

End of year

8.132000 %

8.132000 %

8.132000 %

8.132000 %

8.132000 %

8.132000 %

Type of partner (individual, trust, etc.): Trust

NOTE: CORPORATE PARTNERS MUST USE FORM 165, SCHEDULE K-1(NR).

1	Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6	1	00
2	Partner's percentage of profit or loss (expressed as a decimal)	2	8.132000
3	Partner's distributive share of the adjustment of partnership income from federal to Arizona basis - multiply line 1 by line 2	3	00

PARTNER'S INSTRUCTIONS

The partnership is required to adjust its income from a federal to Arizona basis. Line 3 of Form 165, Schedule K-1, is the partner's distributive share of that adjustment. Report the amount from line 3 on your Arizona tax return according to the instructions below.

Resident Individuals:

If line 3 is a positive number, enter the amount on Form 140, page 2, line B11.

If line 3 is a negative number, enter the amount on Form 140, page 2, line C29.

Part-Year Resident Individuals:

If line 3 is a positive number, enter that portion of line 3 that is allocable to partnership income taxable by Arizona on Form 140PY, page 2, line C23.

If line 3 is a negative number, enter that portion of line 3 that is allocable to partnership income taxable by Arizona on Form 140PY, page 2, line D35.

Resident Estates or Resident Trusts:

If line 3 is a positive number, enter the amount on Form 141AZ, page 2, Schedule B, line B3.

If line 3 is a negative number, enter the amount on Form 141AZ, page 2, Schedule B, line B8.

ACC000009
FILE #8451

4/1/09

To whom it may concern,

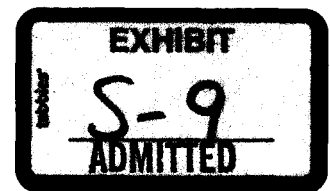
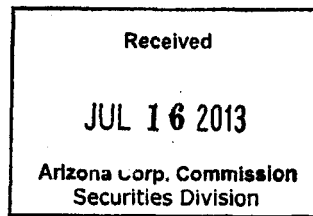
Re: Longest Drive LLC
Grace Communities/Grace Capital LLC

Longest Drive LLC has been an investor only in numerous commercial real estate projects that we have built or attempted to build. Longest Drive LLC has been treated exactly the same as all other Grace investors. No one from Longest Drive LLC has been employed in any capacity with Grace and no one from Longest Drive LLC has ever been paid commissions for any services or fees.

Sincerely,



Donald Zeleznak
Manager



ACC000011
FILE #8451

Question
Answer #13 (A)

#5




Carillon
Investments, Inc.

To: Michael Blake
Agency #45

Date: November 15, 2002

From:


Linda Shumard, Ext. 5263
Securities Licensing Coordinator

Subject: OBA Questionnaire

Attached is a copy of your Outside Business Activity Questionnaire which Bernie has approved. Please keep this for your file.

P.O. Box 40409

1876 Waycross Road

Cincinnati, Ohio 45240-0409

513.595.2600

1.800.999.1840

Fax 513.595.2747

carilloninvest.com

ACC000012
FILE #8451

Attn: Bernard Breton

1876 Waycross Rd.
Cincinnati, OH 45240.

Outside Business Activity Questionnaire

Michael J. Blake
Registered Representative Name

00076255
Rep Number

45
Agency Number

1. Name of Business Activity (A separate OBA Questionnaire must be completed for each activity):

Longest Drive LLC

2. Address of Business Activity: 9900 N. 52nd Street

Paradise Valley, AZ 85253

3. Please describe the outside business activity (be specific) Investment in Commercial
real estate development. Private investment.

4. Are you updating or modifying information about an outside business activity previously disclosed to Carillon?

☒ YES
☐ NO

5. Structure of Business Organization (select one)

☐ Corporation
☒ Sole Proprietorship

☐ Partnership

☒ Other LLC

If Corporation, is it a:

If Corporation, are the shares publicly traded:

If Sole Proprietorship, who is the owner:

If Partnership, please indicate:

Are you a General Partner, Limited Partner, Both or Neither?

☐ "C" Corp

☐ YES

☐ "S" Corp

☐ NO

☐ General Partnership

☐ Limited Partnership

6. Do you have a financial interest in this business activity?

☒ YES ☐ NO

Percentage of your financial interest in the business 20 %

7. What is the source of initial and ongoing capital, if any, of this business? (Check all that apply)

☒ Your personal assets

☐ Bank Loan(s)

☐ Client Loan(s)

☐ Public stock offering

☐ Private stock offering

☐ Promissory Note(s)

☐ Public bond offering

☐ Private bond offering

☐ Other

8. Describe the duties and authority of your position (be specific) I am a member

of this LLC only

9. Do you have custody or control over the funds or property of others in connection with your involvement in this activity (e.g. trustee powers, power-of-attorney (POA), executor, check writing authority, treasurer)?

☒ YES

☐ NO

When we choose a Real estate investment, members write a
check to Longest Drive LLC and then I write a check for the
total amount.

ACC000013

FILE #8451

10. How are you compensated? (Check all that apply)

☐ Salary
☐ Hourly

☐ Commissions
☐ Rights/Stock Options

☐ Fees

☒ Other: No Compensation

11. What percentage of your time do you spend on this outside business activity? 0 %

12. What is your estimated annual income from this business activity? \$ 0

13. How many employees does this business have? 0

14. Are any of the employees, co-owners, partners or investors in this business also Carillon registered representatives?
☐ YES ☒ NO

If YES, please list their names:

15. Are any of the employees, co-owners, partners or investors in this business also clients of yours, Carillon and/or Union Central Life in any respect?
☒ YES ☐ NO

If YES, please list their names:

Jim Welbourn

David Rudick

Equitable client + friend for 25 years

Equitable client, friend for 15 years

16. The undersigned Registered Representative certifies that the foregoing is true and correct.

Michael J. Stokke
Registered Representative Name

Michael Stokke
Registered Representative Signature

10-21-02
Date

- "Outside Business Activity" is hereby defined as any outside activity with any organization that is outside the scope of Carillon's business, regardless of the receipt of any compensation (e.g. all for-profit and non-profit organizations, associations, clubs, real estate activities, all positions involving potential custody or control of assets - trustees, POAs, Executors, Treasurers, Directors, CPAs, Attorneys or any other fiduciary capacity).

FOR CARILLON COMPLIANCE DEPARTMENT USE ONLY:

☒ Approved

☐ Disapproved

☒ 04 Amendment Required

David A. Smith
Compliance Principal

11-1-02
Date

NOTES: _____

ACC000014

FILE #8451

ide Business Activity

Subject: Outside Business Activity

Date: Wed, 16 Oct 2002 15:38:32 -0400

From: "BERNARD A. BRETON" <bbreton@carilloninvest.com>

To: michael.blake@axa-advisors.com

Michael,

Please print and complete the attached Outside Business Activity document regarding your activity with Longest Drive, LLC.

I will then proceed to review and approve if I have no other questions regarding it.


Thank you.

Bernie

Bernard A. Breton
VP & Chief Compliance Officer
Carillon Investments, Inc.
1876 Waycross Rd.
Cincinnati, OH 45240-0409

Tel. 800-999-1840, ext. 2682
513-595-2682
Fax. 513-595-2747

bbreton@carilloninvest.com

 OBA Questionnaire.doc	<p>Name: OBA Questionnaire.doc Type: Microsoft Word Document (application/msword) Encoding: base64 Description: Word for Windows 97 Download Status: Not downloaded with message</p>
---	---

Holly
FAX to
Bernie
MS
Done
10/21
2PM.

ACC000015
FILE #8451

Attn: Bernard Breton

1876 Waycross Rd.
Cincinnati, OH 45240.

Outside Business Activity Questionnaire

Michael J. Blake
Registered Representative Name

00076255
Rep Number

45
Agency Number

1. Name of Business Activity (A separate OBA Questionnaire must be completed for each activity):

Longest Drive LLC

2. Address of Business Activity: 9900 N. 52nd Street
Paradise Valley, AZ 85253

3. Please describe the outside business activity (be specific) Investment in Commercial
real estate development. Private investment,

4. Are you updating or modifying information about an outside business activity previously disclosed to Carillon?

☒ YES
☐ NO

5. Structure of Business Organization (select one)

☐ Corporation
☐ Sole Proprietorship

☐ Partnership
☒ Other LLC

If Corporation, is it a:

☐ "C" Corp ☐ "S" Corp

If Corporation, are the shares publicly traded:

☐ YES ☐ NO

If Sole Proprietorship, who is the owner:

If Partnership, please indicate:

☐ General Partnership ☐ Limited Partnership

Are you a General Partner, Limited Partner, Both or Neither? _____

6. Do you have a financial interest in this business activity?

☒ YES ☐ NO

Percentage of your financial interest in the business: 20 %

7. What is the source of initial and ongoing capital, if any, of this business? (Check all that apply)

☒ Your personal assets ☐ Bank Loan(s) ☐ Client Loan(s)
☐ Public stock offering ☐ Private stock offering ☐ Promissory Note(s)
☐ Public bond offering ☐ Private bond offering ☐ Other _____

8. Describe the duties and authority of your position (be specific) I am a member
of this LLC only.

ACC000016
FILE #8451

9. Do you have custody or control over the funds or property of others in connection with your involvement in this activity (e.g. trustee powers, power-of-attorney (POA), executor, check writing authority, treasurer)?

☒ YES ☐ NO

When we choose a Real estate investment, members write a
check to Longest Drive LLC and then I write a check for the
total amount.

10. How are you compensated? (Check all that apply)

☐ Salary
☐ Hourly

☐ Commissions
☐ Rights/Stock Options

☐ Fees

☒ Other: NO compensation

11. What percentage of your time do you spend on this outside business activity? 0 %

12. What is your estimated annual income from this business activity? \$ 0

13. How many employees does this business have? 0

14. Are any of the employees, co-owners, partners or investors in this business also Carillon registered representatives?
☐ YES ☒ NO

If YES, please list their names:

15. Are any of the employees, co-owners, partners or investors in this business also clients of yours, Carillon and/or Union Central Life in any respect?
☒ YES ☐ NO

If YES, please list their names:

Jim Weltown
David Rudick

Equitable client friend for 25 years
Equitable client, friend for 15 years

16. The undersigned Registered Representative certifies that the forgoing is true and correct.

Michael J. Blake
Registered Representative Name

Michael J. Blake
Registered Representative Signature

10-21-02
Date

* "Outside Business Activity" is hereby defined as any outside activity with any organization that is outside the scope of Carillon's business, regardless of the receipt of any compensation (e.g. all for-profit and non-profit organizations, associations, clubs, real estate activities, all positions involving potential custody or control of assets - trustees, POAs, Executors, Treasurers, Directors, CPAs, Attorneys or any other fiduciary capacity).

FOR CARILLON COMPLIANCE DEPARTMENT USE ONLY:

☐ Approved

☐ Disapproved

☐ U4 Amendment Required

Compliance Principal _____

Date _____

NOTES: _____

ACC000017
FILE #8451

October 16, 2002

Carillon Investments
Attn: Amy Starkey

Re: Longest Drive, LLC

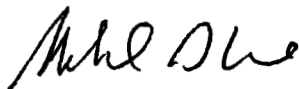
As a private investor in commercial real estate transactions, four friends and myself formed an Arizona LLC with the sole intent to invest in commercial real estate projects. Longest Drive, LLC purchases membership interests in office condos as members in the LLC, set up for each project by the developer. I receive no fees, compensation or additional benefit other than my proportional percentage of profit if any is generated.

Each member individually does their due diligence and invests only those monies they individually are willing to invest in each project.

Only if we are able to meet the investment minimum collectively, does Longest Drive, LLC make in investment.

I have no involvement in the Real Estate Company or project in which we invest.

I am a member in Longest Drive, LLC for the sole purpose of a private investment.

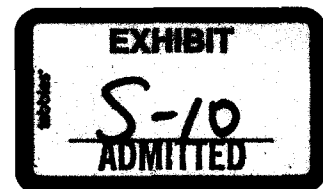
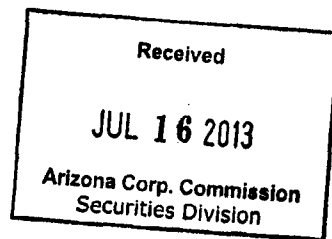


Michael J. Blake

Kira Pippert Complaint

The Pipperts were close family friends of Mr. Blake's. When Mr. Pippert was retiring at age 48, he had some deferred compensation money to invest for a stream of income. He was presented numerous bond and mutual fund portfolios. Mr. Blake then referred the Pipperts to Grace Communities in order for the Pipperts to invest in a note program that Grace Communities was offering. Mr. Blake did not receive any compensation for this referral.

Attached is the original complaint and Mr. Blake's response. March 2011 this case was settled for \$315,000. Mr. Blake and his attorney determined this would have been the approximate cost to go to FINRA arbitration for Mr. Blake. This case was settled and is being paid at a rate of \$20,000 a quarter.



ACC000019
FILE #8451

Pippert Complaint

FINRA ARBITRATION Submission Agreement

Claimant(s)

In the Matter of the Arbitration Between

Name(s) of Claimant(s)

Douglas Pippert, Kira Pippert and the Kira Pippert Revocable Trust

and

Name(s) of Respondent(s)

Michael Blake, Olympus Financial Advisors, Inc., and Ameritas Investment Corp.

1. The undersigned parties ("parties") hereby submit the present matter in controversy, as set forth in the attached statement of claim, answers, and all related cross claims, counterclaims and/or third-party claims which may be asserted, to arbitration in accordance with the FINRA By-Laws, Rules, and Code of Arbitration Procedure.
2. The parties hereby state that they or their representative(s) have read the procedures and rules of FINRA relating to arbitration, and the parties agree to be bound by these procedures and rules.
3. The parties agree that in the event a hearing is necessary, such hearing shall be held at a time and place as may be designated by the Director of Arbitration or the arbitrator(s). The parties further agree and understand that the arbitration will be conducted in accordance with the FINRA Code of Arbitration Procedure.
4. The parties agree to abide by and perform any award(s) rendered pursuant to this Submission Agreement. The parties further agree that a judgment and any interest due thereon, may be entered upon such award(s) and, for these purposes, the parties hereby voluntarily consent to submit to the jurisdiction of any court of competent jurisdiction which may properly enter such judgment.
5. The parties hereto have signed and acknowledged the foregoing Submission Agreement.

Douglas Pippert

Claimant Name (please print)

Claimant's Signature

State capacity if other than individual (e.g., executor, trustee or corporate officer)

7-30-09

Date

Claimant Name (please print)

Claimant's Signature

State capacity if other than individual (e.g., executor, trustee or corporate officer)

Date

If needed, copy this page.

FINRA ARBITRATION Submission Agreement

Claimant(s)

In the Matter of the Arbitration Between

Name(s) of Claimant(s)

Douglas Pippert, Kira Pippert and the Kira Pippert Revocable Trust

and

Name(s) of Respondent(s)

Michael Blake, Olympus Financial Advisors, Inc., and Ameritas Investment Corp.

1. The undersigned parties ("parties") hereby submit the present matter in controversy, as set forth in the attached statement of claim, answers, and all related cross claims, counterclaims and/or third-party claims which may be asserted, to arbitration in accordance with the FINRA By-Laws, Rules, and Code of Arbitration Procedure
2. The parties hereby state that they or their representative(s) have read the procedures and rules of FINRA relating to arbitration, and the parties agree to be bound by these procedures and rules.
3. The parties agree that in the event a hearing is necessary, such hearing shall be held at a time and place as may be designated by the Director of Arbitration or the arbitrator(s). The parties further agree and understand that the arbitration will be conducted in accordance with the FINRA Code of Arbitration Procedure.
4. The parties agree to abide by and perform any award(s) rendered pursuant to this Submission Agreement. The parties further agree that a judgment and any interest due thereon, may be entered upon such award(s) and, for these purposes, the parties hereby voluntarily consent to submit to the jurisdiction of any court of competent jurisdiction which may properly enter such judgment.
5. The parties hereto have signed and acknowledged the foregoing Submission Agreement.

Kira Pippert

Claimant Name (please print)

Kira Pippert

7-30-09

Claimant's Signature

Date

State capacity if other than individual (e.g., executor, trustee or corporate officer)

Claimant Name (please print)

Claimant's Signature

Date

State capacity if other than individual (e.g., executor, trustee or corporate officer)

If needed, copy this page.

FINRA ARBITRATION Submission Agreement

Claimant(s)

In the Matter of the Arbitration Between

Name(s) of Claimant(s)
Douglas Pippert, Kira Pippert and the Kira Pippert Revocable Trust

and

Name(s) of Respondent(s)
Michael Blake, Olympus Financial Advisors, Inc., and Ameritas Investment Corp.

1. The undersigned parties ("parties") hereby submit the present matter in controversy, as set forth in the attached statement of claim, answers, and all related cross claims, counterclaims and/or third-party claims which may be asserted, to arbitration in accordance with the FINRA By-Laws, Rules, and Code of Arbitration Procedure.
2. The parties hereby state that they or their representative(s) have read the procedures and rules of FINRA relating to arbitration, and the parties agree to be bound by these procedures and rules.
3. The parties agree that in the event a hearing is necessary, such hearing shall be held at a time and place as may be designated by the Director of Arbitration or the arbitrator(s). The parties further agree and understand that the arbitration will be conducted in accordance with the FINRA Code of Arbitration Procedure.
4. The parties agree to abide by and perform any award(s) rendered pursuant to this Submission Agreement. The parties further agree that a judgment and any interest due thereon, may be entered upon such award(s) and, for these purposes, the parties hereby voluntarily consent to submit to the jurisdiction of any court of competent jurisdiction which may properly enter such judgment.
5. The parties hereto have signed and acknowledged the foregoing Submission Agreement.

Kira Ann Pippert Revocable Trust

Claimant Name (please print)

Kira Ann Pippert-Trustee

7-30-09

Claimant's Signature

Date

State capacity if other than individual (e.g., executor, trustee or corporate officer)

Claimant Name (please print)

Claimant's Signature

Date

State capacity if other than individual (e.g., executor, trustee or corporate officer)

If needed, copy this page.

04-47000H

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
ARBITRATION**

In the Matter of the Arbitration Between:

Douglas J. Pippert, Kira A. Pippert, and
Kira A. Pippert, Trustee of the Kira Ann
Pippert Revocable Trust

FINRA Case No. _____

Claimants,

STATEMENT OF CLAIM

vs.

Michael Blake, Olympus Financial
Advisors, Inc., Ameritas Investment Corp.,

Respondents.

INTRODUCTION

1. Claimants bring this arbitration against Michael Blake (Blake), and his employers or principals, Olympus Financial Advisors, Inc. (Olympus), and Ameritas Investment Corp. (Ameritas) to recover damages Claimants sustained as a result of Respondents' breach of fiduciary duty as well as their negligent, reckless and fraudulent conduct in connection with the management of Claimants' investments. At all times relevant herein, Respondents were Claimants' financial advisors. In 2006 Claimants told Blake that they wanted to reduce their exposure to the risks and vagaries of the stock market and asked Blake to recommend a safe and secure alternative investment. Instead of recommending a safe and secure alternative such as a money market fund or fixed income investments, Blake recommended Claimants invest in several risky real estate ventures sponsored by a developer named Grace Communities. Respondents induced Claimants to make the investments in part by falsely claiming that the investments would be personally guaranteed by Grace Communities' principals and long-time associates of Blake, Donald Zeleznak (Zeleznak) and Jonathan Vento (Vento). Claimants were

ACC000023
FILE #8451

told that Zeleznak's and Vento's combined net worth exceeded \$180 million and the strength of their guarantees made the investments as close "as you could get" to an investment guaranteed by the Federal Government.

2. Claimants trusted Blake and over the course of about 18 months invested \$1.5 million in several Grace Communities projects based on Blake's recommendations. Claimants received few if any investment documents at the time they made their investments. When Claimants were finally provided the documents in April 2008, it was too late. The Grace Communities projects Blake had recommended were insolvent, interest payments would be cut off, and contrary to Blake's representations, the investments were completely unsecured. In reality, respondents had induced the Claimants to invest nearly all of their liquid assets in a high-risk, unsecured Ponzi scheme. Blake admittedly performed no due diligence on the projects and neglected his professional responsibilities to the Claimants in a self-serving scheme to protect his own investments in the Grace Communities projects. Respondents have shown a complete disregard for Claimants' financial interests and Claimants must now be compensated for the damages they have suffered.

PARTIES AND JURISDICTION

3. Douglas J. Pippert and Kira A. Pippert are individual investors and Kira A. Pippert is Trustee of the Kira Ann Pippert Revocable Trust. The Claimants reside at 725 Ithaca Lane North, Plymouth, Minnesota 55447. Claimants became clients of Blake in August 2003 and through Blake are customers of Olympus and Ameritas.

4. Blake is, upon information and belief, a resident of Paradise Valley, Arizona. Since August 2003, Blake has been the Claimants' financial advisor and has managed their investments. Blake was, at all times relevant hereto, a registered representative acting within the

course and scope of his employment or agency for Olympus and Ameritas. Since at least June 30, 2006, Blake has been licensed to sell securities in the State of Minnesota.

5. Olympus is a Minnesota Corporation with a registered address of 16830 40th Place North, Plymouth, Minnesota 55446. Olympus has offices in Minneapolis, Minnesota; Scottsdale, Arizona; and Albuquerque, New Mexico. Upon information and belief, Blake works primarily out of the Olympus office in Scottsdale, Arizona. Blake is an employee of Olympus.

6. Ameritas is a Nebraska corporation and is authorized and licensed to operate as a registered broker-dealer in the State of Minnesota. It is registered with the Securities and Exchange Commission (SEC) and is a member of FINRA. Blake is a registered representative for Ameritas. On information and belief, Ameritas is a successor to Carillon Investments, Inc., with whom Doug and Kira Pippert opened a joint account through Blake in 2004. Carillon is no longer registered as a broker-dealer with FINRA and it is believed that Ameritas acquired all accounts of Claimants that had been opened through Blake with Carillon Investments, Inc.

7. FINRA has jurisdiction over this matter pursuant to the FINRA Code of Arbitration Procedures because this dispute involves public clients, members of FINRA and an associated person.

BACKGROUND

8. In or around August 2003, Claimants agreed to have Blake act as their certified financial planner. Blake and Olympus facilitated the transfer of all of the Claimants financial investments, including individual retirement accounts, stock certificates, money market accounts, mutual funds and 401k's into a consolidated account managed by Blake. Most of these assets, or proceeds therefrom, were deposited and held in an Ameritas account opened by Blake for the Kira Ann Pippert Revocable Trust.

9. In the last half of 2006, Claimants became concerned about the risk associated with their heavy concentration in the stock market and wanted to move a significant portion of their investments out of the stock market and into more secure and less-risky investments. Doug Pippert asked Blake to recommend some conservative alternative investments for a significant portion of their portfolio to support the Pipperts' planned retirement.

BLAKE ENCOURAGES CLAIMANTS TO INVEST IN GRACE COMMUNITIES.

10. In response to Doug Pippert's request, Blake informed Doug that he represented Grace Communities and that Claimants should invest in Grace Communities. Blake told Doug that he and others had invested in Grace Communities and received returns in excess of 40% in one to two years.

11. Blake owns Longest Drive, LLC. On information and belief, Blake uses Longest Drive, LLC to manage his equity investments in Grace Communities.

12. Blake had represented Grace Communities as a successful real estate developer that sold equity investments in its developments. In November of 2006, Blake informed Doug Pippert that Grace Communities was also offering interest-bearing loans at 15% to support the ongoing development of its projects. Blake also stated that Grace Communities' loans were nearly risk free and personally guaranteed by its principal partners, Zeleznak and Vento.

13. Doug Pippert asked Blake why Zeleznak and Vento would pay such a high interest rate and guarantee the loans. Blake responded that Zeleznak and Vento wanted to use their personal money for other investment opportunities. Blake stated that Vento and Zeleznak were two of his largest clients and had a net worth that exceeded \$60,000,000 (Sixty Million Dollars) and \$120,000,000 (One Hundred Twenty Million Dollars), respectively. As such, Blake assured Pippert that Zeleznak and Vento had sufficient assets to cover their guarantees.

True at the time

14. Doug Pippert asked Blake about the risk associated with the loans. Blake responded by saying that the loans were as close as one could come to having a loan insured by the Federal Government because of the guarantees of Zeleznak and Vento.

A. Blake convinces Claimants to invest in the Burr Ridge Project.

15. In addition to the interest-bearing loans that Grace Communities offered on its projects, Blake also told Doug Pippert that there was an opportunity for a direct equity investment in one of their projects, the Burr Ridge Project, located outside of Chicago. Blake told Doug that Claimants could expect a 40% return on their investment in one or two years. Based solely on Blake's representations, Claimants initially agreed to make a \$100,000 equity investment in the Burr Ridge Project. However, rather than investing directly in Burr Ridge, on July 7, 2006, Blake directed Doug Pippert to write a check to Blake's company, Longest Drive LLC, for \$100,000. At the time of the investment, Claimants were not given any documentation or private placement memorandum disclosing the risks associated with the Burr Ridge Project or any information regarding Longest Drive LLC. Rather, Doug Pippert was simply given a one-page Account Application form for Longest Drive, LLC. Longest Drive LLC cashed the Claimants' \$100,000 check.

B. Blake convinces Claimants to invest in the Romeoville Project.

16. On or around November 10, 2006, Claimants agreed to loan \$700,000 to another Grace Communities project known as the Romeoville Project. Claimants agreed to this investment, as Blake assured them Romeoville was a great project and that Claimants loan was 100% personally guaranteed by Zeleznak and Vento. Blake told Doug Pippert that the loan would be for 18 months, pay 15% interest and would generate interest payments of \$8,750 per month. At the time Claimants invested, they were not given any documents or private placement

memorandum disclosing either the terms or the risks associated with the Romeoville loan. Instead, Claimants relied entirely on the representations made by Blake. Blake wired \$700,000 directly to the Romeoville Project from the Kira Ann Pippert Revocable Trust account at Ameritas that Blake managed. Blake did not provide Claimants any documentation for this loan until April 2008, after Doug Pippert asked to see it. Contrary to Blake's express representations, the Romeoville promissory note was not personally guaranteed by either Zeleznak or Vento.

C. Blake convinces Claimants to invest in the Geneva Project.

17. In January 2007, Blake recommended that Claimants invest in yet another Grace Communities project. This project was known as the Geneva Project. Blake told Doug Pippert that this investment would be the same as Romeoville. That is, that the loan amount would be guaranteed by Zeleznak and Vento and pay 15% interest. Blake stated that the loan would be for 18 months and would generate interest payments of \$3,750 per month.

18. Based on Blake's assurances, Claimants agreed to invest \$300,000 in Geneva. On January 23, 2007, at Blake's direction, Doug Pippert wrote a \$300,000 check to Grace Communities.

19. At the time Claimants made the loan for the Geneva Project, they relied entirely on Blake's representations and were not given any documentation or private placement memorandum disclosing either the terms or the risks associated with the Geneva Project.

20. As with the Romeoville Project, Claimants did not receive any documentation of the loan until April of 2008, after requesting to see the documents at a meeting with Blake. Contrary to Blake's representations, the promissory note for the loan to Geneva was not fully guaranteed by Zeleznak or Vento. Instead, Zeleznak and Vento had guaranteed the note only

until escrow closed on the purchase of the land. After that, the only guarantee was from the maker of the promissory note, Geneva Office Investors L.L.C, essentially no guaranty at all.

D. Blake convinces the Claimants to invest in the Vernon Hills Project.

21. On January 30, 2007, Blake sent Doug an email informing him that Grace Communities was building condo projects in Elgin, Illinois and Vernon Hills, Illinois. Blake's email stated that Grace Communities wanted to raise \$1,000,000 (One Million Dollars) for 18 months. Blake's email promised that Grace Communities would pay 15% annual interest and that the investment was "personally guaranteed by the two owners of Grace Communities" (Zelevnak and Vento).

22. On April 25, 2007, Blake and Doug Pippert met in person to review the Claimants' investment portfolio. Blake assured Doug that the investments with Grace Communities were sound and generating the promised, guaranteed income. At that point, the Claimants did not have additional investment funds. However, during the summer of 2007, Doug Pippert received severance compensation from his employer and sold some other investments, which generated additional cash. Blake convinced Claimants that \$400,000 of these funds should also be invested in a Grace Communities project.

23. On October 1, 2007, Blake emailed Doug Pippert and informed him that Grace Communities had "room" for a \$400,000 investment. Blake's email stated that the interest rate on the investment would be 15%, would generate "another \$60,000 a year in income" and once again would be fully guaranteed by Zelevnak and Vento.

24. On October 17, 2007, Blake wired \$400,000 from the Kira Ann Pippert Revocable Trust account held at Ameritas to Grace Communities to serve as payment for the Claimants' investment in the Vernon Hills, Illinois Project. As with the Romeoville and Geneva

projects, neither Zeleznak nor Vento fully guaranteed the loan to the Vernon Hills Project. Instead, Zeleznak and Vento only guaranteed the note until escrow closed on the purchase of the land. Claimants did not receive a copy of the guarantee until April 2008 when they met in person with Blake and asked to see the loan documents and guarantees.

25. To summarize, Blake encouraged and convinced Claimants to invest nearly all of their liquid assets in four Grace Communities' Projects - Burr Ridge, Romeoville, Geneva and Vernon Hills. Claimants' total investment in the projects was \$1,500,000. On information and belief, Blake played a critical role in obtaining funds for the Grace Communities projects and received compensation for this service, either in cash, equity or more favorable investment terms. It is believed that Blake also has a significant investment in these projects and used Claimants' funds to keep other project lenders at bay and protect his own investments with Zeleznak and Vento.

26. On April 18, 2008, Blake met with the Pipperts. Blake reiterated that the investments in Grace Communities were solid and performing well. At the same meeting, Blake finally provided Claimants copies of the promissory notes for each project. On information and belief, by then Grace Communities was simply operating as a Ponzi scheme, using new investor money to make interest payments to existing investors to keep investors at bay. These payments ensured that investors like Claimants would assume everything was going well and that their investments were safe.

27. Based on the 18-month term of the Romeoville Promissory Note, Claimants should have been returned their initial \$700,000 investment on May 15, 2008. However, Blake convinced Claimants that the \$700,000 investment in Romeoville should be extended or rolled over into another Grace Communities project known as the Elgin Illinois Project.

28. Claimants received what would be their last interest payment on or about May 15, 2008. They still had no reason to suspect the projects were in trouble and Blake continued to assure Claimants that everything was fine.

29. Based on Blake's recommendation and assurances, on May 19, 2008, Doug Pippert told Blake that he would consider putting \$200,000 in the Elgin Project and leaving \$500,000 in the Romeoville Project.

30. Around June 4, 2008, Blake emailed Doug Pippert and told him that Grace Communities had suspended payments on all promissory notes. Blake stated that the suspension was temporary, that the interest would accrue and that all interest and original investments would be repaid.

31. Blake knew or should have known that he faced significant exposure to the Claimants for the Grace Communities investments and the numerous misrepresentations he had made to induce Claimants to invest. To forestall any action by Claimants, Blake made numerous misrepresentations in an effort to lull Claimants into believing their investments were still safe and would be repaid. For instance, on June 12, 2008, Blake emailed Doug Pippert and other investors in Grace Communities telling them that Grace Communities just needed "breathing room" and that the Claimants and the other investors would be paid in full with interest. Blake also wrote that "a prayer or two would help."

32. On June 13, 2008, Blake falsely represented to Doug Pippert that Romeoville was completely built and 25% sold.

33. Despite Blake's attempts to reassure the Claimants, on June 16, 2008, Doug Pippert told Blake that he wanted \$1,000,000 of their investments returned from Grace

Copy of email regarding Pippert's 19 days

Communities. Doug Pippert stated that Claimants would leave \$500,000 in Romeoville, believing Blake's assurances that their investment was still safe and secure.

34. Around July 9, 2008, Blake called Doug Pippert and again assured him that the Claimants' investments in Grace Communities were "100% secure." Blake knew, or should have known, that his representation was false and misleading and that Claimants' investments were completely unsecured and the Grace Communities' projects were insolvent and operating as a Ponzi scheme.

35. On August 13, 2008, Blake emailed Doug Pippert about the Claimants investments in Grace Communities. Blake provided Doug with a status report on the Romeoville, Geneva, and Vernon Hills Projects. Blake stated that Romeoville was 30% sold and that the Geneva and Vernon Hills projects were both under construction. Blake also stated that the Claimants' "money is not in jeopardy." In the same email Blake hinted, albeit inadvertently, that Grace Communities was little more than a Ponzi scheme, stating "Grace is actively trying to find replacement investors for your money."

*Per Tomkins
Response to
Pippert's letter
out.*

36. In late September 2008, Doug Pippert personally visited the lead project managers on the Romeoville, Geneva, and Vernon Hills projects. At that time, Doug discovered that Blake's representations about the status of the projects were false and misleading. For instance, Doug learned that Romeoville was only 3% sold and that the Geneva and Vernon Hills projects were never under construction and had been shut down.

37. On December 9, 2008, Blake and Doug Pippert spoke on the telephone. For the first time, Blake admitted that Claimants' investments were not secure as he previously stated and that Claimants might lose their entire investment.

38. From December, 2008 through March, 2009, Blake attempted to persuade Claimants to convert their loans in the Romeoville, Geneva and Vernon Hills Projects to an equity position in the Burr Ridge Project. Blake, Zeleznak and Vento refused to provide any financial data regarding Burr Ridge or any of the other projects and wanted Claimants to release Zeleznak and Vento and their agents (apparently including Blake) of any personal liabilities. Blake's actions in recommending Claimants convert their loans into equity investments and sign a release was a transparent attempt to avoid personal responsibility for his reckless advice and recommendations. During this time Claimants also learned that Zeleznak and Vento had been named in a number of lawsuits in California, Illinois and Arizona alleging Ponzi and "pump and dump" schemes.

39. On May 1, 2009, Doug Pippert and his accountant traveled to Phoenix to meet with Blake and asked him to return Claimants' money that he had invested with his cronies, Zeleznak and Vento. Blake refused to return the money, however, he admitted that he had performed no due diligence on the projects prior to soliciting Claimants' investments. Blake also admitted that he never reviewed the promissory notes or purported guarantees prior to soliciting Claimants' investments and in the case of the Romeoville and Vernon Hills projects, had simply wired the money directly from the Kira Ann Pippert Revocable Trust account with no questions asked. Blake also disclosed for the first time that he had an investment with Grace Communities in Hawaii that had not generated any income for five years. Essentially, Blake admitted that he had no reasonable basis for recommending the Grace Communities investments to Claimants.

40. Blake is a financial advisor, registered representative and a broker-dealer. Blake held himself out as an expert in his field and Olympus and Ameritas knew and had a duty to know about his misconduct. Claimants sought a safe and secure investment that would shield

them from the volatility of the stock market. Instead, Blake recommended Claimants invest nearly all of their liquid assets in a high-risk, unsecured Ponzi scheme. Blake neglected his professional responsibilities to Claimants in a self-serving scheme to protect his own investments in Grace Communities.

COUNT ONE

(AGAINST ALL RESPONDENTS)

Violation of state securities laws

Minnesota law

Minn. Stat. § 80A.01

41. The State of Minnesota prohibits fraud and deception in the sale of securities. Under Minn. Stat. § 80A.01, respondents are liable if they merely acted negligently, and it is not necessary to show "scienter," (i.e. bad motive or recklessness). In Minnesota mere negligence may constitute a violation of the securities laws. See Sprangers v. Interactive Technologies, Inc., 394 N.W.2d 498, 503 (Minn. Ct. App. 1986).

42. Respondents violated Minn. Stat. § 80A.01 through their misconduct described herein by employing devices, schemes, and artifices to defraud, making untrue statements of material fact, and omitting to state material facts necessary to make the statements made not misleading, and engaging in acts, practices and courses of business which operated as a fraud or deceit.

Minn. Stat. § 80A.03

43. Respondents also violated Minn. Stat. § 80A.03, another anti-fraud provision of Minnesota's securities laws, which prohibits the use of any "manipulative, deceptive or other fraudulent device or contrivance."

44. A person who violates the Minnesota securities laws is required by law, pursuant to Minn. Stat. § 80A.23, to pay the reasonable attorney's fees of the person whose rights were violated. This statute is the basis for Claimants' request for an award of their reasonable attorneys' fees.

45. As a direct and proximate result of Respondents violations of Minn. Stat. § 80A.01 et. seq., and rules promulgated thereunder, Claimants have suffered damages in an amount in excess of \$1,500,000 plus attorney's fees for which Respondents are jointly and severally liable.

Minn. Stat. § 80A.68

46. For actions occurring after August 1, 2007, Minn. Stat. § 80A.68 makes Respondents liable if they merely acted negligently, and it is not necessary to show "scierter," (i.e. bad motive or recklessness). In Minnesota, mere negligence may constitute a violation of the securities laws. See Sprangers v. Interactive Technologies, Inc., 394 N.W.2d 498, 503 (Minn. App. 1986), review denied (Minn. 1986).

47. Respondents violated Minn. Stat. § 80A.69 through their misconduct described herein by employing devices, schemes, and artifices to defraud, making untrue statements of material fact, and omitting to state material facts necessary to make the statements made not misleading, and engaging in acts, practices and courses of business which operated as a fraud or deceit.

Minn. Stat. § 80A.69

48. By their actions occurring after August 1, 2007, Respondents also violated Minn. Stat. § 80A.69, which prohibits the use of any "manipulative, deceptive or other fraudulent device or contrivance" in the purchase or sale of securities.

49. A person who violates the Minnesota securities laws is required by law, pursuant to Minn. Stat. § 80A.23, to pay the reasonable attorney's fees of the person whose rights were violated. This statute is the basis for Claimants' request for an award of their reasonable attorneys' fees.

50. As a direct and proximate result of respondents violations of Minn. Stat. § 80A.68 et. seq., and rules promulgated thereunder, Claimants have suffered damages plus attorney's fees for which Respondents are jointly and severally liable.

Arizona Law

A.R.S. § 44-1991

51. Arizona law also makes it unlawful for a person, in connection with a transaction or transactions within or from Arizona involving an offer to sell or buy securities, or a sale or purchase of securities to directly or indirectly employ any device, scheme or artifice to defraud; to make any untrue statement of material fact or omit to state any material fact necessary in order to make the statements made in light of the circumstances under which they were made, not misleading; to engage in any transaction, practice or course of business that would operate as a fraud or deceit.

52. Respondents violated Arizona law through their misconduct described herein by employing devices, schemes, and artifices to defraud, making untrue statements of material fact, and omitting to state material facts necessary to make the statements made not misleading, and engaging in acts, practices and courses of business which operated as a fraud or deceit.

53. Respondents are jointly and severally liable to the Claimants for damages suffered by them in an amount in excess of \$1,500,000.

COUNT TWO

(AGAINST ALL RESPONDENTS)

Respondeat Superior

54. Olympus and Ameritas are also liable to Claimants as Blake's employer and/or principal under the common law doctrine of respondeat superior. Under this doctrine an employer/principal is liable for an employee's or agent's acts committed within the scope of employment or agency.

55. Blake was an employee and agent of Olympus and Ameritas and they authorized, ratified, induced, endorsed, and/or approved the acts complained of herein. Accordingly, Olympus and Ameritas are liable for Blake's misconduct.

COUNT THREE

(AGAINST ALL RESPONDENTS)

Negligent Supervision

56. Olympus and Ameritas had a non-delegable duty to supervise Blake, their agent and employee, to ensure Blake conducted himself in an ethical and proper manner with respect to Claimants' investments and to ensure that Claimants' investments were being handled properly and in accordance with their wishes.

57. Olympus and Ameritas breached their non-delegable duty of due care to supervise their agents, employees and registered representatives by failing to adequately supervise Blake with respect to Claimants' investments.

58. As a direct and proximate result the negligence of Olympus and Ameritas in failing to carry out their non-delegable duty to properly and adequately supervise Blake, Claimants suffered damages in an amount in excess of \$1,500,000.

COUNT FOUR

(AGAINST ALL RESPONDENTS)

Breach of Fiduciary Duty – Common Law

59. A fiduciary duty exists whenever one person has placed his or her trust and confidence in another person. A breach of fiduciary duty occurs when a fiduciary abuses the trust or superior influence to the damage of the other. In this case, Olympus, Ameritas, and Blake owed fiduciary duties to Claimants because they held themselves out as experts and skilled in matters of financial investments and portfolio management, by reason of their influence over Claimants' investments, and by reason of their representations to the Claimants, that they were experienced professionals working for Claimants' best interests. In short, Respondents owed a fiduciary duty to Claimants because Claimants trusted them to obey the law, abide by their promises and representations and at all times act in their best interests.

60. Respondents by and through their improper, wrongful and unlawful conduct, breached their fiduciary duty to Claimants. As a direct and proximate result of Respondents' breaches of their fiduciary duty and otherwise improper, wrongful and unlawful conduct, Claimants have suffered damages in an amount in excess of \$1,500,000.

COUNT FIVE

(AGAINST ALL RESPONDENTS)

Breach of Fiduciary Duty – Minn. Stat. § 45.026

61. Respondents represented themselves orally and in writing as financial planners within the meaning of Minn. Stat. § 45.026. This statute defines "financial planner" broadly, and expressly makes such persons liable for breaches of fiduciary duty. That statute reads, in pertinent part:

(b) "Financial planner" means a person who on advertisement, cards, signs, circulars, letterheads, or in other manner, indicates that the person is a "financial planner," "financial counselor," "financial advisor," "investment counselor," "investment advisor," "financial consultant," or other similar designation, title, or combination is considered to be representing that the person is engaged in the business of financial planning.

Subd. 2. Fiduciary duty. Persons who represent that they are financial planners have a fiduciary duty to persons for whom services are performed for compensation. In an action for breach of fiduciary duty, a person may recover actual damages resulting from the breach, together with costs and disbursements."

62. Respondents performed services for compensation for Claimants.
63. Respondents held themselves out as financial advisors including describing themselves as providing "financial strategy", "financial advisors", and "providing financial services."
64. Respondents owed Claimants a statutory fiduciary duty to always act in Claimants' interest because they held themselves out as financial advisors,
65. As described herein, Respondents breached the statutory fiduciary duty they owed to Claimants.
66. Claimants were damaged as a result of Respondents' breach of their statutory fiduciary duty.
67. As a direct and proximate result of Respondents' breach of their statutory fiduciary duty, Claimants sustained damages in an amount in excess of \$1,500,000.

COUNT SIX

(AGAINST ALL RESPONDENTS)

Negligence

68. Respondents owed Claimants a duty to act in a reasonable and prudent manner in handling their investments. The failure to act as a reasonable and prudent person would act under the same or similar circumstances is negligence.

69. Respondents, by their conduct, breached their duties of due care to Claimants in that they failed to act as reasonable and prudent persons would have acted in the same or similar circumstances.

70. As a direct and proximate result of Respondents' breaches of their non-delegable duty of due care, Claimants have suffered damages in an amount in excess of \$1,500,000.

COUNT SEVEN

(AGAINST ALL RESPONDENTS)

Common Law Fraud

71. Respondents made material misrepresentations and omitted material facts as more fully set forth above.

72. Respondents made such misrepresentations and omissions with the intent to defraud Claimants.

73. Respondents knew such representations were false or made them in reckless disregard for their truth or falsity, or made them in circumstances under which Claimants were justified in relying on them.

74. Claimants reasonably, actually and justifiably relied upon Respondents' misrepresentations and acted without knowledge of their omissions.

75. As a direct and proximate result of the misrepresentations and omissions of Respondents and other improper, wrongful and unlawful conduct, Claimants have suffered damages in an amount in excess of \$1,500,000.

COUNT EIGHT

(AGAINST ALL RESPONDENTS)

Violation of FINRA Rule 2010

76. FINRA Rule 2010 provides: "A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade."

77. Respondents' conduct as described above violated FINRA Rule 2010.

78. Claimants were damaged as a result of Respondents' violations of FINRA Rule 2010.

79. Respondents are jointly and severally liable to Claimants for damages suffered by them in an amount in excess of \$1,500,000.

COUNT NINE

(AGAINST ALL RESPONDENTS)

Punitive Damages

80. Respondents' actions demonstrated a deliberate disregard for the right of Claimants to have their investments handled in accordance with their wishes by their financial advisors.

81. In encouraging, recommending and allowing Claimants to invest in the Grace Communities projects, Respondents knew or intentionally disregarded facts that created a high probability that Claimants would be injured.

82. By representing to Claimants that their investments with Grace Communities

were backed by personal guarantees, Respondents deliberately proceeded with indifference to the high probability that Claimants would be injured.

83. This arbitration panel should now punish Respondents for their misconduct and deter future wrongdoing by awarding Claimants punitive damages in excess of \$1,500,000.

REQUESTED RELIEF

WHEREFORE, Claimants respectfully request the arbitration panel issue an award in their favor and against Michael J. Blake, Olympus Financial Advisors, Inc., and Ameritas Investment Corp., jointly and severally, as follows:

1. Awarding compensatory damages in the amount of \$1,500,000.
3. Awarding punitive damages in an amount in excess of \$1,500,000 to punish Respondents and to deter future abuses.
4. Awarding Claimants their reasonable attorneys' fees.
5. Awarding pre and post judgment interest on all damages awarded.
6. Awarding Claimants their costs, disbursements and expenses incurred in pursuing this arbitration, including expert witness fees.
8. Awarding such other relief, as the arbitrators deem just and equitable.

FRUTH, JAMISON & ELSASS, PLLC

Dated: August 5, 2009

By



Thomas E. Jamison (Atty. Reg. No. 220061)

Adam A. Gillette (Atty. Reg. No. 0328352)

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ATTORNEYS FOR CLAIMANTS

Pippert
Response

FINANCIAL INDUSTRY REGULATORY AUTHORITY
MATTER OF ARBITRATION

In the Matter of Arbitration Between

DOUGLAS J. PIPPERT, KIRA A.
PIPPERT, AND KIRA A. PIPPERT,
TRUSTEE OF THE KIRA ANN PIPPERT
REVOCABLE TRUST,

Claimants,

v.

MICHAEL BLAKE, OLYMPUS
FINANCIAL ADVISORS, INC.,
AMERITAS INVESTMENT CORP.,

Respondents.

FINRA Dispute
Arb. No. 09-04700

**MICHAEL BLAKE AND
OLYMPUS FINANCIAL ADVISORS, INC.'S RESPONSE TO
CLAIMANTS' STATEMENT OF CLAIM**

RESPONSE

Respondents Michael Blake and Olympus Financial Advisors, Inc., for their
Response to the specific claims of Douglas J. Pippert, Kira A. Pippert and Kira A.
Pippert, as Trustee of the Kira Ann Pippert Revocable Trust (the "Pipperts" or
"Claimants") in response to Claimants' Statement of Claim, admit, deny and affirmative
allege as follows:

1. Respondents deny the allegations contained in Claimants' Statement of
Claim Paragraph 1 in the context of and as set forth therein.

2. Respondents deny the allegations contained in Claimants' Statement of Claim Paragraph 2 in the context of and as set forth therein.

PARTIES AND JURISDICTION

3. Respondents admit the allegations set forth in the first and third sentences of Claimants' Statement of Claim Paragraph 3 only in the context of and as set forth therein, and only as to the Pipperts being "individual investors" and Kira A. Pippert being the Trustee of her Revocable Trust generally and Claimants being clients of Blake and customers of Olympus and Ameritas, generally. Respondents lack sufficient knowledge to form a belief as to the truth or falsity of the allegations set forth in second sentence of Paragraph 3 of the Statement of Claim and therefore deny the same.

4. Respondents admit to certain of the allegations set forth in Claimants' Statement of Claim Paragraph 4 only in the context of and as set forth therein, and only as to being "a" financial advisor of Claimants and Respondent Blake being a registered representative and his being licensed to sell securities in Minnesota. Respondents deny the remaining allegations of Statement of Claim Paragraph 4.

5. Respondents admit to the allegations set forth in the first three sentences of Claimants' Statement of Claim Paragraph 5 only in the context of and as set forth therein, and further affirmatively assert, in response to the fourth sentence of Paragraph 5, that Blake is a principal and officer of Olympus.

6. Respondents admit to the allegations set forth in the in the first three sentences of Claimants' Statement of Claim Paragraph 6. Respondents lack sufficient knowledge to form a belief as to the truth or falsity of the remaining allegations set forth in Statement of Claim Paragraph 6, except to admit that Claimants Doug and Kira Pippert

opened an account through Blake with Carillon Investments, Inc., in 2004 and that the Pipperts' accounts originally opened with Blake are now with Respondent Ameritas Investment Corp. ("AIC").

7. Upon information and belief, Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 7.

BACKGROUND

8. Respondents lack sufficient knowledge to form a belief as to the truth or falsity of the allegations set forth in Claimants' Statement of Claim Paragraph 8, and therefore deny the same, except to admit only that most of the Pipperts' assets and investments held in AIC accounts were held in an account opened by Blake for Mrs. Pipperts' Revocable Trust and that the Pipperts had and still have certain accounts with Respondents and with AIC.

9. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 9.

10. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 10.

11. In response to Claimants' Statement of Claim Paragraph 11, Respondents admit only that Blake is a member and manager of Longest Drive, LLC, and deny the remaining allegations set forth therein.

12. Respondents admit the allegations set forth in Claimants' Statement of Claim Paragraph 12, except to deny specifically that Blake represented that any of the Grace Communities offerings were "nearly risk free." Indeed, Respondents affirmatively assert, upon information and belief, that Respondent Blake and Grace Communities, both

verbally and in writing, clearly disclosed and explained to Claimants the Risk Analysis of the Grace Communities offerings as "highly speculative real estate" investments "intended only for sophisticated real estate investors" "who can afford to lose their entire investment," and further, that "[s]ome of the risk factors include no assurance of profitability, a downturn in the commercial real estate market, inability to secure acquisition or construction financing, unforeseen competition and the need for additional capital." Claimants were further advised to "consult legal, accounting and financial planning advice prior to investing."

13. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 13.

14. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 14 through 20 in the context of and as set forth therein.

15. Upon information and belief, Respondents deny the allegations contained in Claimants' Statement of Claim Paragraph 21 as set forth therein.

16. Respondents deny the allegations set forth in the first three sentences and fifth sentence of Claimants' Statement of Claim Paragraph 22 in the context of and as set forth therein. Respondents lack sufficient knowledge or information to form a belief as to the trust of falsity of the allegations set forth in the forth sentence of Paragraph 22, and therefore deny the same.

17. In response to the allegations set forth in Claimants' Statement of Claim Paragraph 23, Respondents assert that the Mr. Blake's October 1, 2007 e-mail speaks for itself and deny the allegations as otherwise characterized therein. Respondents further affirmatively allege that this e-mail was sent to Mr. Pippert in follow-up to a specific and

unsolicited request made by Mr. Pippert for information concerning additional investment opportunities available to the Pipperts directly with Grace Communities.

18. In response to the allegations set forth in Claimants' Statement of Claim Paragraph 24, Respondents deny the allegations set forth in the last sentence therein, and admit the remaining allegations, but only in the context of and as set forth therein.

19. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraphs 25 and 26.

20. Respondents lack sufficient knowledge to form a belief as to the truth or falsity of the allegations set forth in the first sentence of Claimants' Statement of Claim Paragraph 27, and therefore deny the same. Respondents deny the remaining allegations of Paragraph 27 in the context of and as set forth therein.

21. Respondents admit the allegation set forth in the first sentence of Claimants' Statement of Claim Paragraph 28, but lack sufficient knowledge to form a belief as to the truth or falsity of the remainder of the allegations set forth in Paragraph 28, and therefore deny the same.

22. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraphs 29.

23. In response to Claimants' Statement of Claim Paragraph 30, Respondents affirmatively assert that the e-mail referenced therein speaks for itself and therefore deny the allegations set forth therein as characterized other. Respondents further affirmatively assert that Mr. Blake contacted Mr. Pippert at or about this time due to the untimely death of Scott Coles, principal of Mortgage, Ltd.

24. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 31 in the context of and set forth therein. Respondents further affirmatively assert that the e-mail referenced therein speaks for itself, and therefore deny the allegations to the extent they attempt to characterize the same.

25. Respondents deny the allegations in Claimants' Statement of Claim Paragraph 32 through 34 in the context of and as set forth therein.

26. In response to Claimants' Statement of Claim Paragraph 35, Respondents affirmatively assert that the subject e-mail speaks for itself and therefore deny the allegations to the extent they attempt to characterize the same.

27. Respondents lack sufficient knowledge to form a belief as to the truth or falsity of the allegations set forth in Claimants' Statement of Claim Paragraph 36, and therefore deny the same.

28. In response to Claimants' Statement of Claim Paragraph 37, Respondents admit only that Respondent Blake and Mr. Pippert may have spoken on or about that date; however, Respondents deny the remaining allegations set forth therein.

29. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 38 as they pertain to him. Respondents further lack sufficient knowledge as to these allegations as they pertain to Zelznak and Vento, and therefore deny the same.

30. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 39.

31. In response to Claimants' Statement of Claim Paragraph 40, Respondents admit only that Respondent Blake is a financial advisor and registered representative, and

ACC000048
FILE #8451

- 6 -

further affirmatively assert, upon information and belief that he fully complied with FINRA Rules of Conduct concerning Longest Drive, LLC, and Grace Communities. Respondents deny the remaining allegations set forth in Paragraph 40.

COUNT ONE

(AGAINST ALL RESPONDENTS)

Violation of state securities laws – Minnesota law

32. Respondents can neither admit nor deny the allegations set forth in Claimants' Statement of Claim Paragraph 41, as it calls for a legal conclusion.

33. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 42 and 43.

34. Respondents can neither admit nor deny the allegations set forth in Claimants' Statement of Claim Paragraph 44, as it calls for a legal conclusion.

35. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 45.

36. Respondents can neither admit nor deny the allegations set forth in Claimants' Statement of Claim Paragraph 46, as it calls for a legal conclusion.

37. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 47 and 48.

38. Respondents can neither admit nor deny the allegations set forth in Claimants' Statement of Claim Paragraph 49, as it calls for a legal conclusion.

39. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 50.

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Violation of state securities laws – Arizona law

40. Respondents can neither admit nor deny the allegations set forth in Claimants' Statement of Claim Paragraph 51, as it calls for a legal conclusion.

41. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 52 and 53.

COUNT TWO

(AGAINST ALL RESPONDENTS)

Respondeat Superior

42. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 54 and 55.

COUNT THREE

(AGAINST ALL RESPONDENTS)

Negligent Supervision

43. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 56, 57, and 58.

COUNT FOUR

(AGAINST ALL RESPONDENTS)

Breach of Fiduciary Duty – Common Law

44. Respondents can neither admit nor deny the allegations set forth in the first two sentence of Claimants' Statement of Claim Paragraph 59, as they call for legal conclusions. Respondents deny the remaining allegations set forth in Claimants' Statement of Claim Paragraph 59, well as the allegations set forth in Paragraph 60.

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COUNT FIVE

(AGAINST ALL RESPONDENTS)

Breach of Fiduciary Duty – Minn. Stat. Section 45.026

45. Respondents can neither admit nor deny the allegations set forth in Claimants' Statement of Claim Paragraph 61, as they call for legal conclusions.
46. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 62 through 67.

COUNT SIX

(AGAINST ALL RESPONDENTS)

Negligence

47. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 68, 69 and 70.

COUNT SEVEN

(AGAINST ALL RESPONDENTS)

Common Law Fraud

48. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 71 through 75.

COUNT EIGHT

(AGAINST ALL RESPONDENTS)

Violation of FINRA Rule 2010

49. Respondents can neither admit nor deny the allegation set forth in Claimants' Statement of Claim Paragraph 76, as it calls for a legal conclusion.

50. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 77, 78 and 79.

COUNT NINE

(AGAINST ALL RESPONDENTS)

Punitive Damages

51. Respondents deny the allegations set forth in Claimants' Statement of Claim Paragraph 80 through 83.

52. Respondents deny each and every allegation not specifically admitted to herein.

**RESPONDENT BLAKE'S AND OLYMPUS' DENIAL OF LIABILITY
FOR CLAIMANTS' CAUSES OF ACTION**

1. Respondents reserve the right to rebut each and every legal argument at the appropriate time. Respondents deny that they engaged in any conduct in violation of any federal or state securities laws, any rules promulgated thereunder, or any other principles of common law.

2. Respondents deny that they were negligent or reckless or otherwise breached any duty of care owed or allegedly owed to Claimants.

3. Respondents deny owing any fiduciary duty to Claimants.

4. Respondents deny that they made any misrepresentations or omissions of material fact, made assurance of performance, or engaged in any type of fraud or deceit in violation of any federal or state securities laws, or any other statutory or common law. Respondents deny that they made any unsuitable recommendations in light of Claimants' financial status, needs, and expressed investment goals and objectives, sophistication, and risk tolerance. Respondents deny that their conduct was negligent or in breach of any

alleged contract (if one existed) or alleged contractual obligations entered into between Claimants and Respondents Blake, Olympus or AIC. Claimants fail to allege any breach of contractual obligations on the part of the Respondents.

5. Respondents deny that they received any compensation in connection with Claimants' investments which are the subject of their Statement of Claim.

6. Respondents deny all claims for alleged compensatory or punitive damages, interest, attorneys' fees, costs and expenses.

AFFIRMATIVE DEFENSES

Respondents further assert, in the alternative, the following affirmative defenses:

A. Claimants fail to state a claim or cause of action upon relief can be granted as against these Respondents.

B. Statutes of limitations and/or eligibility pursuant to applicable Minnesota, Arizona, federal securities laws, FINRA Rules of Arbitration Procedure, and/or applicable common law.

C. Claimants suffered no actual or statutory damages by reason of any act of Respondents.

D. Claimants have failed and continue to fail to mitigate their damages.

E. Respondents are not liable to Claimants in any amount because, at all times relevant to this matter, Respondents acted properly in dealing with Claimants and their accounts and the purchase of the Longest Drive and several Grace Communities membership interests which are the subject of this action. Respondents are not liable to Claimants, in whole or in part, because they did not control the Claimants' purchases that are the subject of their Statement of Claim.

F. Claimants failed to exercise their own due diligence.

G. Claimants' did not reasonably rely on the alleged statements or omissions of the Respondents.

H. The Statement of Claim, and each Count set forth therein, fail to state facts sufficient to allege the existence of or the breach of any legal duty or obligation, if any, owed by Respondents to Claimants.

I. Respondents had no fiduciary duty to Claimants as to some or all of Claimants' claims.

J. Respondents did not make any of the investment decisions with regard to Claimants' investment purchases, and the losses, if any, which they may have suffered were proximately caused by the acts or omissions of Claimants or third parties other than these Respondents and/or or by the superseding intervention of causes outside these Respondents' control;

K. The alleged transactions recommended to and made for or on behalf of Claimants, if any, were suitable for them and in accordance with their stated goals and objectives, risk tolerance and financial condition;

L. All risks inherent in the subject investment purchases and strategies at issue were known to Claimants, and any damages or injuries sustained by Claimants, if there are any, are the consequence of a known risk voluntarily and knowingly undertaken by Claimants, and Claimants are barred from recovery thereof. Moreover, any alleged losses incurred by Claimants were the direct result of adverse conditions and cannot be attributed to Respondents;

M. Claimants directed, authorized, consented to, ratified, accepted, acquiesced in, and confirmed in all respects the strategies employed and the transactions executed in their accounts. As a result, their claims are barred by the equitable doctrines of estoppel, laches, ratification, acceptance and waiver.

N. Upon information and belief, at all times relevant to this action, Respondents acted properly and performed and complied with all of their duties and responsibilities.

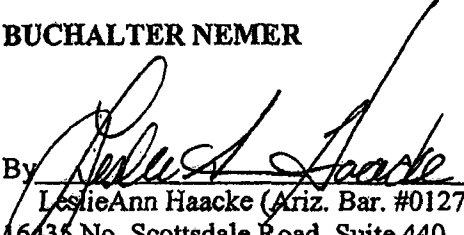
O. Claimants are not entitled to an award of attorneys' fees, punitive damages, interest or the costs of these proceedings.

P. Any claims by Claimants for punitive or exemplary damages violates the Fourteenth Amendment, the excessive fines clause of the Eighth Amendment, the due process clause and the contracts clause of the United States Constitution, and further violates the Minnesota and Arizona constitutions.

Q. Any and all affirmative defenses as have been or may be raised by Respondent AIC's as is applicable.

DATED: November 20, 2009

BUCHALTER NEMER

By 
LeslieAnn Haacke (Ariz. Bar. #012734)
16435 No. Scottsdale Road, Suite 440
Scottsdale, Arizona 85254
Phone: 480.383.1861
Fax: 480.383.1619
E-mail: lhaacke@buchalter.com
*Attorneys for Respondents Blake and
Olympus Financial Advisors, Inc.*

CERTIFICATE OF SERVICE

I hereby certify on the 20th day of November, 2009, I mailed the original and three (3) copies of the above and foregoing via United States First Class Regular Mail, prepaid, addressed as follows:

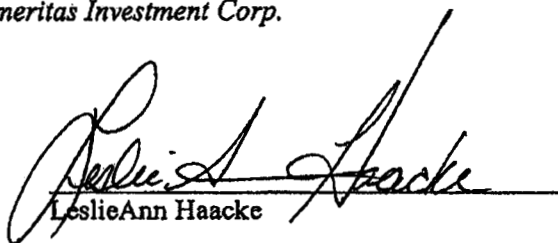
Patrick Walsh
Case Administrator
FINRA
Midwest Regional office
55 West Monroe Street, Suite 2600
Chicago, IL 60603-5104

And that on the 20th day of November, 2009, I mailed true and correct copies of the above and foregoing by sending said copies United States First Class Regular Mail, prepaid, addressed as follows:

Adam A. Gillette
Thomas E. Jamison
Fruth, Jamison & Elsass PLLC
3902 IDS Center
80 S. 8th Street
Minneapolis, MN 55402
Attorneys for Claimants

David M. Williams
Law Department
Ameritas Investment Corp.
5900 O Street
P.O. Box 81889
Lincoln, NE 68501
Attorneys for Ameritas Investment Corp.

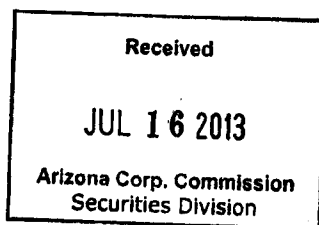
Dated: November 20, 2009


LeslieAnn Haacke

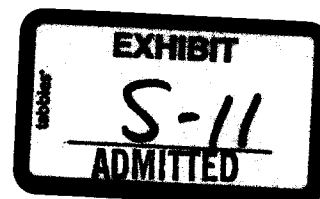
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FILE #8451

Barbara Martinson

Mrs. Martinson made an accusation that Mr. Blake misrepresented a life insurance policy that he sold to her in 2007. Ameritas Investment Corp conducted a thorough investigation of this sale. Mr. Blake fully cooperated with Ameritas during their investigation. He submitted his notes, documents and proof of sale to Ameritas for their review. Ameritas Investment Corp determined that this sale was a proper sale and denied Mrs. Martinson's claim. Attached is Mr. Blake's letter to Ameritas Investment Corp summarizing this sale.



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FILE #8451





OLYMPUS FINANCIAL ADVISORS

PEAK

January 7, 2013

Barbara Martinson Complaint

Barbara Martinson and her husband Ed were investment clients of mine since February 2007. When doing a lunch and review July 2007, she asked me to take a look at her Pacific Life Variable Life plan that funded her Irrevocable Life Insurance Trust (ILIT). She gave me her last statement and I asked her to request an inforce proposal and for a copy of her ILIT. I never received either one of these although I requested a number of times. At our next meeting, I presented to her what the status of her current policy based on the information she furnished. Her ILIT owned a \$500,000 death benefit, Option A death benefit, underwritten as Standard and her asset allocation was growth oriented. She also mentioned she wasn't getting the service that I was giving them on the investment side. I explained that under Option A, her trust would only receive the death benefit and I explained Option A vs. Option B. She also said she was in better shape now and worked out. She then asked me if I could do better. I shopped her policy around as Preferred and with Option B. During underwriting she came out as Table C, Union Central was able to Table shave to Standard, so this was the same as Pacific Life, we were able to offer Option B death benefit, so she received more death benefit and we were able to reduce the annual payments \$4200 a year.

I presented this new policy and she accepted and was appreciative, she could have called her Pacific Life agent, she signed the state replacement forms and her Pacific Life agent could have called her upon receipt of the replacement forms and maybe she did.

After placement, she signed the delivery receipt and the illustration and for the last 5 years she has paid the annual premium.

Then in November 2012 she filed a complaint with Ameritas Investment Corp, where she alleges that I replaced her Pacific Life policy in order to generate commission. I have requested a copy of the complaint from Ameritas and they have not received yet. I have sent all of my records on this case to Ameritas and twice they have called with a couple of questions. There has been no interview on this case.

ACC000058

FILE #8451

Bottom Line, Mrs. Martinson received more coverage at the lower premium, even after the downturn in the stock market in 2008, her Union Central inforce carries to age 100.

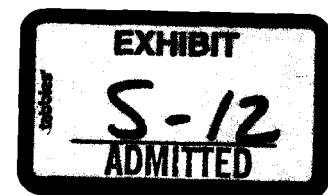
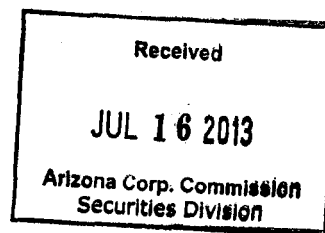
Ameritas Investment Corporation compliance is conducting this investigation, not Union Central on the Life side.

Finally, I have been selling Variable Life Insurance products for 22 years and have never before had a complaint. Also, I have no history of excessive replacements, my number of replacements over my career are extremely small.

ACC000059
FILE #8451

Gary Chilcoat Complaint

Gary Chilcoat filed a copycat complaint based on information taken from Mr. Blake's broker check profile. A copy of his complaint and our response is attached. This matter when right to mediation. During mediation it was unquestionably determined that Mr. Blake had no prior knowledge or involvement in Mr. Chilcoat's real estate investment. This matter was closed and settled for legal fees.



ACC000060
FILE #8451

Chilcoat Response

16435 NORTH SCOTTSDALE ROAD, SUITE 440 SCOTTSDALE, ARIZONA 85254-1754
TELEPHONE (480) 383-1800 / FAX (480) 824-9400

Direct Dial Number: (480) 383-1845
Direct Facsimile Number: (480) 383-1602
E-Mail Address: rhall@buchalter.com

November 12, 2012

Via FedEx and E-mail

Ms. Susan Byford
FINRA
4600 S. Syracuse St, Suite 1400
Denver, CO 80237-2719

Re: Examination # 20100217105 and 20120331211;
Ameritas Investment Corp./Michael Blake
Response to Request for Information from Michael Blake

Dear Ms. Byford:

The following will constitute Mr. Blake's response to your letter October 15, 2012.

1. Mr. Blake has no recollection of or information to support Mr. Chilcoat's claim that Mr. Blake participated in Mr. Chilcoat's purchase of a \$430,000 promissory note issued by Office Condominiums of Elgin, LLC. This transaction did not come through Ameritas Investment Corp; Longest Drive, LLC; any other entity associated with Mr. Blake; or Mr. Blake personally.

In preparation for mediation between Mr. Blake, Mr. Chilcoat, and Ameritas on November 20, 2012, the parties agreed to engage in informal discovery. In response to informal discovery requests posed by Mr. Blake, Mr. Chilcoat provided documentation which he alleges supports his claim. Those documents, however, do not support that claim.

It appears from the documentation that Mr. Chilcoat had a retirement account at Morgan Stanley. That account had a financial adviser listed, but the individual listed is not Michael Blake.

It further appears from the documentation that \$430,321.52 went into the Morgan Stanley account in January 2007. It is not entirely clear from the documents provided that those funds were a distribution from the estate of Mr. Chilcoat's deceased father, but there is some tangential information to support that allegation.

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FILE #8451

The documentation also shows that in March 2007, the Morgan Stanley account was liquidated and moved to the Entrust Group. Also in March 2007, there is a Buy Direction letter from Mr. Chilcoat to Entrust directing that \$430,000 be lent/paid to Grace Communities/Office Condominiums of Elgin, LLC. There is also a promissory note from Office Condominiums of Elgin, LLC back to Entrust, as well as a guaranty, in favor of Entrust, of the promissory note by Donald Zelznak and Jonathan Vento.

Notably, Mr. Blake's name, address, or any other information regarding him, Olympus Financial Advisors, or Longest Drive does not appear on any of that documentation.

2. Mr. Blake did not participate in Mr. Chilcoat's transactions with Grace Communities/Office Condominiums of Elgin, LLC. Accordingly, there was nothing to disclose to FINRA.

3. Mr. Blake was not involved with Office Condominiums of Elgin, LLC. There was therefore nothing to disclose to Ameritas. Indeed, Mr. Blake was not even aware of this project until May 2008, more than a year after Mr. Chilcoat invested in it.

4. Since Mr. Blake did not participate in Office Condominiums of Elgin, LLC, he never sought approval from Ameritas for such participation.

5. Neither Mr. Blake nor any entities associated with him participated in any manner in the purchase of promissory notes issued by Office Condominiums of Elgin, LLC.

6. To the best of Mr. Blake's knowledge, and his review of his records, he has already disclosed to FINRA any and all real estate projects that he participated in through Longest Drive, LLC.

7. To the best of Mr. Blake's knowledge, and his review of records, he has identified any and all ownership interests in or referrals made during the last seven years.

8. Mr. Blake has been unable to locate a letter dated June 1, 2010, wherein he states that "he did not consider the investments in Burr Ridge to be securities based on advice of counsel." October 15, 2012 letter to this officer from FINRA. And Mr. Blake has no recollection of making such a statement. Indeed, his position now is the same as his position on January 19, 2012, which is that he never attempted to determine if the Burr Ridge investments were securities because he had no reason to believe that they were.

If FINRA could please provide a copy of the June 1, 2010 letter being referenced, that might help Mr. Blake refresh his recollection and be able to assist him in answering items 8 through 14.

9. Please see response to no. 8, above.

ACC000062
FILE #8451

10. Please see response no. 8, above.
11. Please see response no. 8, above.
12. Please see response no. 8, above.
13. Please see response no. 8, above.
14. Please see response no. 8, above.

15. Attached/enclosed is the Subscription and Counterpart Signature Page for Membership Interests-Burr Ridge Office Investors, LLC ("Subscription Agreement"). That document was prepared by Grace Communities. Additionally, Mr. Blake submitted that document to his broker-deal at the time, Carillon Investments. Carillon raised no objection to that Subscription Agreement.

Mr. Blake's position is that had Carillon thought the Subscription Agreement constituted trade in securities, that it would have alerted him to that fact.

Moreover, the Subscription Agreement itself, in the second paragraph, states that Burr Ridge Office Investors, LLC, through its principals Donald Zelznak and Jonathan Vento, informed Mr. Blake of the following: "the Interests [in Burr Ridge] will not [sic] be registered pursuant to the Securities Act of 1933, as amended (the 'Act'), or under Arizona or any other state's securities laws based upon your [Burr Ridge's] belief that the Interests are not 'securities' as defined under the Act, or even if so defined, the sale to me [Longest Drive] qualified for an exemption from the registration requirements of said federal and state securities laws."

Thus, based on the warranties of Burr Ridge Office Investors, LLC and its principals, Mr. Blake had no reason to believe that those investments constituted securities. Mr. Blake further believed that to be true because he was only selling interests in Burr Ridge to friends and family members, because all profits and losses were split proportionately, because Mr. Blake did not receive any favorable terms or compensation for assisting with the Burr Ridge transactions.

Ms. Susan Byford
November 12, 2012
Page 4

16. Please see enclosed verification of Mr. Blake.

Sincerely,

BUCHALTER NEMER
A Professional Corporation

By

Roger W. Hall

RWH:jkg
Enclosures
cc: Mr. Michael Blake (*via e-mail only, w/enclosures*)

ACC000064
FILE #8451

BN 12660731v1



Financial Industry Regulatory Authority

FACSIMILE

TO Mr. Roger W. Hall
COMPANY Buchatter Nemer
FAX 480-824-9400
TEL _____
DATE October 15, 2012
NUMBER OF PAGES INCLUDING COVER 6

FROM Susan Byford
FAX 303-620-9450
TEL 303-446-3100

This fax transmittal is strictly confidential and is intended solely for the person or organization to whom it is addressed.

ACC000065
FILE #8451

Investor protection. Market integrity.

4600 S. Syracuse Street
Suite 1400
Denver, CO
80237-2719

t 303 446 3100
f 303 620 9450
www.finra.org



Financial Industry Regulatory Authority

Via First Class and Facsimile (480) 824-9400

CONFIDENTIAL

October 15, 2012

Mr. Roger W. Hall
Buchalter Nemer
16435 North Scottsdale, RD, Suite 440
Scottsdale, AZ 85254

RE: Examination # 20100217105 and 20120331211
Ameritas Investment Corp. / Michael Blake
Request for information from Michael Blake

Dear Mr. Hall:

This request is being sent pursuant to Procedural Rule 8210, requesting information and documentation from Mr. Blake. It is our understanding that you will represent Mr. Blake in connection with this matter. Please let us know if this is incorrect. Please provide the following documents and information to me at 4600 S. Syracuse Street., Suite 1400, Denver, CO 80237-2719 no later than **October 29, 2012**:

1. Mr. Gary Chilcoat filed a statement of claim (SOC) alleging that on or about March 9, 2007, Mr. Blake participated in Mr. Chilcoat's purchase of a \$430,000 promissory note issued by Office Condominiums of Elgin, LLC. Please provide a written statement responding to Mr. Chilcoat's allegation. The statement should include but is not limited to, a detailed description of Mr. Blake's role in his purchase.
2. A written response indicating why Mr. Blake's involvement with Mr. Chilcoat and Office Condominiums of Elgin, LLC was not previously disclosed to FINRA staff.
3. A written response indicating whether Mr. Blake's involvement with Office Condominiums of Elgin, LLC was disclosed to Ameritas. If not, please explain. If Mr. Blake disclosed his involvement, provide the following information and documentation:
 - a. Whom did Mr. Blake tell – by name, title, address and phone number;
 - b. When did each discussion take place, or if by writing, what was/were the date(s) of the written communication(s);
 - c. Specifically, what Mr. Blake told each person with whom he discussed his involvement;
 - d. A comprehensive description of each conversation regarding the disclosure, including what was said about the business opportunity; the extent of Mr. Blake's involvement; and any compensation he had

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FILE #8451

District 3A
4600 S. Syracuse St., Suite 1400
Denver, CO 80237-2719

t 303 446 3100
f 303 620 9450
www.finra.org

20100217105 and 20120331211

October 15, 2012

Page 2

- received, or were expected to receive;
- e. If any of Mr. Blake's communication with Ameritas or anyone on its behalf, included written materials, including attachments, please produce such materials and attachments; and
 - f. Notes and emails pertaining to any meetings and/or conversations. Include all relevant documentation for each part of this question.
4. Did Ameritas or anyone on its behalf, grant Mr. Blake permission to participate in Condominiums of Elgin, LLC? If so, provide the following:
- a. If the approval was oral, please describe in detail, the date, nature and extent of such discussions, including the participants to such discussion and the extent of such approval; and
 - b. If the approval was in writing, please produce all documents concerning such approval.
5. If Mr. Blake participated, in any manner, in the purchase of promissory note(s) issued by Office Condominiums of Elgin, LLC, by any individuals and/or businesses, identify such individuals and/or businesses.. For each identified individual or business provide:
- a. The name, address and telephone number for each individual or business that Mr. Blake participated in the offer and/or sale of any product to;
 - b. Whether the investor or customer was a customer of Ameritas at the time of the transaction;
 - c. A description of the product each customer purchased;
 - d. All documents relating to the transaction(s);
 - e. The date of the transaction(s);
 - f. The amount of the transaction(s);
 - g. A comprehensive description of Mr. Blake's participation in the sale of the product(s) (e.g. did he recommend the transaction, send in the purchase amount, provide updates); and
 - h. The compensation Mr. Blake received, or expected to receive, as a result of his involvement in the transaction(s).
6. A written statement confirming that Mr. Blake has now identified any and all real estate projects he participated in through Longest Drive or otherwise, including but not limited to all Grace Communities investments.
7. A written statement confirming that Mr. Blake has identified any and all businesses which he was affiliated, had an ownership interest in or made referrals to during the last seven years.

ACC000067
FILE #8451

20100217105 and 20120331211

October 15, 2012

Page 3

In a letter dated June 1, 2010, provided to FINRA, Mr. Blake indicated that he did not consider the investments in Burr Ridge to be securities based on advice of counsel. Please provide the following documents and information relating to this statement.

8. Provide all written materials provided to counsel and/or describe all statements made to counsel as a predicate for receiving legal advice on the issue of whether funds sent to the Longest Drive for investment in Grace Properties were considered securities, including but not limited to Burr Ridge.
9. When did Mr. Blake receive such legal advice?
10. From whom did Mr. Blake receive such legal advice?
11. What was the substance of the legal advice (e.g. what advice did Mr. Blake receive)?
12. What was the form of the advice (written or oral)? If it was written, please provide a copy of the written advice or opinions.
13. Was anyone else was aware of the legal advice? If so, please advise who was aware of it and how they became aware.
14. In the testimony Mr. Blake provided to FINRA on January 19, 2012, he stated that he never considered or attempted to determine if the Burr Ridge investments were securities (p. 79-82). Please explain the discrepancy between Mr. Blake's earlier written response and the answer he gave during his investigative testimony.
15. Any and all other data, documents and/or information Mr. Blake would want this office to review with respect to this matter.
16. **Please also provide a signed attestation from Mr. Blake indicating that the information and documentation sent in response to the staff's request has been verified and represents a full and accurate response to the staff's request.**

In responding to this request please note the following:

- Electronic communications must be produced in their entirety in their native, electronic format including attachments, Internet headers, and/or other metadata, on CD-ROM, DVD, or other electronic storage media. Facsimile reproductions such as TIFF, JPG, or other image files, PDF files, or productions that require proprietary software or viewers, including Concordance or Summation, are not acceptable.

ACC000068
FILE #8451

20100217105 and 20120331211

October 15, 2012

Page 4

Please provide a separate file or series of files for each individual (custodian) and/or system produced and include an index clearly indicating the custodian, all email accounts or aliases used or potentially used by the custodian, and the system and/or application from which the electronic communications are being produced. Do not produce paper copies unless there is no electronic source for the electronic communications. Retain all backups or archives of electronic communications for the Relevant Period, even after all responsive electronic communications have been produced.

- Under FINRA Rule 8210, Mr. Blake is obligated to respond to this request fully, promptly, and without qualification. Mr. Blake is also obligated to supplement or correct any response that Mr. Blake later learns to have been incomplete or inaccurate. If Mr. Blake withholds any responsive document or information he must specifically identify what he is withholding and state the basis for his doing so. Any failure on his part to satisfy these obligations could expose Mr. Blake to sanctions, including a permanent bar from the securities industry.
- As used in this request, the term "document" means writings, drawings, graphs, charts, spreadsheets, photographs, microfilm, microfiche and any other data compilation or communication from which information can be obtained. "Document" specifically includes, without limitation, communications memorialized or stored in any storage medium, including mechanical or electronic form such as email and voicemail messages. "Document" also includes drafts and any non-identical copies. If any document responsive to this request consists of electronic data, please produce it on CD-ROM, DVD, or other electronic storage media in the native, electronic format as created and stored in the ordinary course of business. Facsimile reproductions such as TIFF, JPG, or other image files, PDF files, or productions that require proprietary software or viewers, including Concordance or Summation, are not acceptable unless that is how the records are kept in the ordinary course of business. See below for information concerning encryption requirements. If it is not feasible for Mr. Blake to do so, please call me to discuss alternative arrangements.
- If the person associated with a member firm is providing the information in response to this request electronically on a portable media device (PMD), including but not limited to, hard drives, CD-ROMs, DVDs or other discs/diskettes, the PMD (or the files stored on the PMD) ***must be encrypted*** as required by Rule 8210(g) (see, Regulatory Notice 10-59). **The access password must be provided in a separate communication to Susan Byford.**
- As a matter of policy, FINRA conducts its investigations on a non-public basis. Nonetheless FINRA may sometimes provide access to its investigative files to other regulatory and law enforcement authorities, and, if subpoenaed, to litigants in civil actions. In addition, pursuant to FINRA's Code of Procedure, FINRA is required to

ACC000069

FILE #8451

20100217105 and 20120331211
October 15, 2012
Page 5

produce documents and transcripts to respondents during discovery. We will not (1) entertain requests for confidential treatment of any information or documents provided in response to this request; (2) give notice of any subpoena or access request we receive that encompasses any such information or documents; or (3) undertake to return documents when this investigation is completed.

Since this is a preliminary inquiry, it does not require reporting under Form U4, Question 14G, regarding notice of investigations.

This inquiry should not be construed as an indication that FINRA or its staff has determined that any violations of federal securities laws or FINRA, NASD, NYSE, or MSRB rules have occurred. Please call me at 303-446-3121, if you have any questions.

Sincerely,

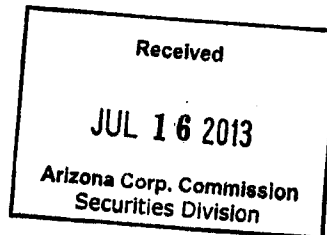


Susan Byford
Principal Examiner

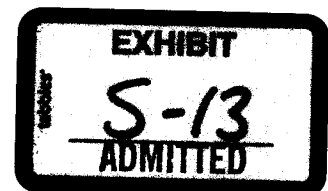
Cc: Ms. Sara Jane Andres, Ameritas Investment Corp.
(Via facsimile (402) 325-4212 and first class mail)

ACC000070
FILE #8451

Pam Pont has filed a claim in Superior Court of the State of Arizona for \$50,000. There is no validity to her claim. Currently, my attorney, Michael Salcido is filing a motion to dismiss based on the facts or the case. I have attached Ms. Pont's claim and my responses to each claim. I fully expect this calling to be dismissed.



ACC000071
FILE #8451



Pamela Pont
Complaint

Received
6/17/13
6/28 pm

1 **WILLIAM A. MILLER, PLLC**
2 AZ Bar No. 011622
3 8170 North 86th Place, Suite 208
4 Scottsdale, Arizona 85258
5 Telephone: (480) 948-3095
6 E-mail: bmiller@williamamillerpllc.com
7 www.williamamillerpllc.com

8 *Attorney for Pamela Pont*

9 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**
10 **IN AND FOR THE COUNTY OF MARICOPA**

11 PAMELA PONT, a single woman,
12
13 Plaintiff,

No.

CV 2013-007824

SUMMONS

14 vs.

15 MICHAEL BLAKE and JANE DOE
16 BLAKE, husband and wife; AMERITAS
17 INVESTMENT CORP., a Nebraska
18 corporation; LONGEST DRIVE, L.L.C., an
19 Arizona limited liability company; ABC
20 ENTITIES 1 - 10; DOES 1 - 10,

21 Defendants.

22 **THE STATE OF ARIZONA TO THE DEFENDANT:**

Michael Blake
9900 North 52nd Street
Paradise Valley, AZ 85253

23 **YOU ARE HEREBY SUMMONED** and required to appear and defend, within the time applicable,
24 in this action in this Court. If served within Arizona, you shall appear and defend within 20 days after the
25 service of the Summons and Complaint upon you, exclusive of the day of service. If served out of the
26 State of Arizona - whether by direct service, by registered or certified mail, or by publication - you shall
appear and defend within 30 days after the service of the Summons and Complaint upon you is complete,
exclusive of the day of service. Where process is served upon the Arizona Director of Insurance as an
insurer's attorney to receive service of legal process against it in this state, the insurer shall not be
required to appear, answer or plead until expiration of 40 days after date of such service upon the
Director. Service by registered or certified mail without the State of Arizona is complete 30 days after the
date of filing the receipt and affidavit of service with the Court. Service by publication is complete 30 days
after the date of first publication. Direct service is complete when made. Service upon the Arizona Motor
Vehicle Superintendent is complete 30 days after filing the Affidavit of Compliance and return receipt or
Officer's Return. R.C.P. 4; A.R.S. §§20-222, 28-502, 28-503.

YOU ARE HEREBY NOTIFIED that in case of your failure to appear and defend within the time
applicable, judgment by default may be rendered against you for the relief demanded in the Complaint.

Requests for reasonable accommodation for persons with disabilities must be made to the

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FILE #8451

1 division assigned to the case by parties at least three judicial days in advance of a scheduled
2 court proceeding.

3 **YOU ARE CAUTIONED** that in order to appear and defend, you must file an Answer or proper
4 response in writing with the Clerk of this Court, accompanied by the necessary filing fee, within the time
5 required, and you are required to serve a copy of any Answer or response upon the plaintiff's attorney.
6 **R.C.P. 10(d); A.R.S. §12-311; R.C.P. 5.**

7 The name and address of Plaintiff's attorney is:

8 **William A. Miller, PLLC**
9 8170 North 86th Place, Suite 208
10 Scottsdale, AZ 85258

11 **SIGNED AND SEALED** this date: _____

12 *Michael K. Jeanes*

13 By: _____

14 JUN 5 2013

15 Deputy Clerk
16 CLERK
17 DEPUTY CLERK

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25
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ACC000073
FILE #8451

COPY

JUN - 5 2013



MICHAEL K. JEANES, CLERK
M. DE LA CRUZ
DEPUTY CLERK

1 **WILLIAM A. MILLER, PLLC**
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7 www.williamamillerpllc.com

8 *Attorney for Pamela Pont*

9 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**
10 **IN AND FOR THE COUNTY OF MARICOPA**

11 PAMELA PONT, a single woman,
12 Plaintiff,

13 vs.

14 MICHAEL BLAKE and JANE DOE
15 BLAKE, husband and wife; AMERITAS
16 INVESTMENT CORP., a Nebraska
17 corporation; LONGEST DRIVE, L.L.C., an
18 Arizona limited liability company; ABC
19 ENTITIES 1 - 10; DOES 1 - 10,

20 Defendants.

No. CV2013-007824

**CERTIFICATE OF COMPULSORY
ARBITRATION**

21 The undersigned certifies that this case is NOT subject to compulsory
22 arbitration because the largest award sought by the Plaintiff, including punitive
23 damages, but excluding interest, attorneys' fees and costs DOES exceed the limits set
24 by Local Rule for Compulsory Arbitration. Ariz.R.Civ.Proc. 72(b)(1).

25 Dated this 7th day of June 2013.

26 WILLIAM A. Miller, PLLC

By


William A. Miller
Attorney for Plaintiff Pamela Pont

COPY

JUN - 5 2013



MICHAEL K. JEANES, CLERK
M. DE LA CRUZ
DEPUTY CLERK

1 **WILLIAM A. MILLER, PLLC**
2 AZ Bar No. 011622
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8 *Attorney for Pamela Pont*

9
10 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**
11 **IN AND FOR THE COUNTY OF MARICOPA**

12 PAMELA PONT, a single woman,
13
14 Plaintiff,

No. CV 2013-007824

COMPLAINT

15 vs.

16 MICHAEL BLAKE and JANICE BLAKE,
17 husband and wife; AMERITAS
18 INVESTMENT CORP., a Nebraska
19 corporation; LONGEST DRIVE, L.L.C., an
20 Arizona limited liability company;
21 OLYMPUS FINANCIAL ADVISORS,
22 LLC; ABC ENTITIES 1 - 10; DOES 1 - 10,

23 Defendants.

24 For her Complaint against Defendants, Plaintiff Pamela Pont, alleges as follows:

25 **Parties, Jurisdiction, and Venue**

26 1. Plaintiff Pamela Pont ("Ms. Pont") is a single woman and is a resident of Maricopa County, Arizona.

2. Defendants Michael Blake ("Blake") and Janice Blake are husband and wife and are residents of Maricopa County, Arizona. The acts and conduct of Michael Blake as described herein were undertaken for and on behalf of the marital community comprised of Michael Blake and Janice Blake such that the community is liable for Michael Blake's acts. Michael Blake is the manager of Defendant Longest Drive, L.L.C. ("Longest Drive") and Olympus Financial Advisors, LLC ("Olympus").

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1 3. Defendant Ameritas Investment Corp. ("Ameritas") is a Nebraska
2 corporation, authorized to do, and doing business in Maricopa County, Arizona.
3 Ameritas is liable for all of the acts herein alleged against Blake, Olympus and/or
4 Longest Drive, through theories of vicarious liability and/or agency.

5 4. Defendant Longest Drive is an Arizona limited liability company,
6 authorized to do, and doing business in Maricopa County, Arizona. Defendant Olympus
7 is an Arizona limited liability company, authorized to do, and doing business in Maricopa
8 County, Arizona.

9 5. Defendants have caused acts and/or occurrences to take place in Maricopa
10 County, Arizona which form the basis for this lawsuit.

11 6. Jurisdiction and venue are proper in this Court.

12 7. The true names and capacities, whether individual, corporate, associate, or
13 otherwise, of the defendants sued herein as ABC Entities 1 through 10 and Does 1
14 through 10 are unknown to Ms. Pont who therefore sues such defendants by such
15 fictitious names. Ms. Pont will amend this Complaint to show such true names and
16 capacities when he has ascertained the same. Ms. Pont is informed and believes, and
17 therefore alleges, that each defendant designated as ABC Entities or Doe is in some
18 manner or means of degree responsible for the damages suffered by her in this
19 Complaint.
20

21 **General Allegations**

22 8. Ms. Pont is a single woman with three dependent children.

23 9. Ms. Pont was divorced in or around 2000 and as the result of the divorce
24 she had a modest amount of money that she wished to invest.

25 10. Since Ms. Pont had a longstanding personal relationship with Defendant
26 Blake (their children attended the same school), she approached Blake to become her

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FILE #8451

1 financial advisor.

2 11. In or around 2003, Blake opened an investment firm called Olympus
3 Financial Advisors ("Olympus") located in Scottsdale, Arizona and Ms. Pont employed
4 Blake to assist her with her finances and investments.

5 12. Ms. Pont invested her nest egg with Olympus which is licensed through
6 Ameritas and Pacific Life Insurance Company.

7 13. Ms. Pont has maintained an account with Ameritas and an Individual
8 Retirement Account through Pacific which funds are administered by Blake and Olympus
9 since approximately 2000.

10 14. For instance, on or about 2008, Mr. Blake and Ameritas, churned an IRA
11 from John Hancock to Pacific Life at a cost of \$3,693.42. This was done without proper
12 and adequate disclosure to Ms. Pont.

13 15. Sometime in 2007, Blake suggested that Ms. Pont invest \$50,000 in a
14 Grace Communities Project located in Romeoville, Illinois.

15 16. Blake claimed that Grace Communities was constructing a medical office
16 plaza in Romeoville (the "Romeoville Project") and that if Ms. Pont invested in the
17 Project she would see a return on her investment of \$30,000 to \$50,000 in two years. This
18 was false and made with the intent to induce Ms. Pont into investing in this project.

19 17. Blake claimed that Grace Communities was a successful local developer
20 who had built several commercial projects in the Phoenix metropolitan area.

21 18. Blake showed Ms. Pont promotional materials that were designed to
22 convince Ms. Pont that Grace Communities had completed (or were about to complete)
23 major developments in the Phoenix metropolitan area.

24 19. Grace Communities' advertisements and promotional materials were
25 cleverly designed to fool investors into believing that major development projects were
26 either completed or close to being completed.

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FILE #8451

1 20. In fact, none of these development projects had ever broken ground and
2 Blake knew or should have known that the projects were not even past the conceptual
3 design phase at the time that he recommended that Ms. Pont invest in the Romeoville
4 Project.

5 21. At the time Blake recommended the Romeoville Project, Ms. Pont
6 communicated to Blake that she needed a secure investment for her money and that she
7 could not afford to lose her investment.

8 22. Blake knew (from years of advising her financially) that Ms. Pont was a
9 stay-at-home mother who needed her investment funds to live on.

10 23. Blake knew that Ms. Pont had no investment experience or investment
11 knowledge and that Ms. Pont trusted him to put her into a secure investment knowing her
12 situation.

13 24. On the basis of Blake's recommendations, Ms. Pont invested \$50,000 in the
14 Romeoville Project in approximately 2007.

15 25. Blake initially communicated regularly with Ms. Pont about her investment
16 in the Romeoville Project and indicated that everything was going well with the project.

17 26. Blake indicated that he would visit the site of the Romeoville Project
18 occasionally and reported back to investors through update letters. Yet he never did this
19 until late 2009.

20 27. After more than two years had elapsed since Ms. Pont invested in the
21 Romeoville Project she began questioning why she had seen no return on her investment.

22 28. Blake never indicated that there was any problem with the Romeoville
23 Project nor did he indicate that her investment was at risk in any of his reports to Ms.
24 Pont and other investors.

25 29. In approximately early 2013, Ms. Pont called Mr. Blake to find out what
26 was going on with her \$50,000.00 investment. She learned that Grace Communities

1 (along with its principals Donald Zeleznak and Jonathan Vento) had lost its developments
2 in Phoenix to foreclosure and, upon information and belief, had moved to Chicago in
3 order to improve the Romeoville Project which was a cash flow disaster.

4 27. Blake failed to inform Ms. Pont that Grace Communities (along with its
5 principals Donald Zeleznak and Jonathan Vento) were the subject of multiple lawsuits by
6 investors who were claiming they had been defrauded of their investments. Blake failed
7 to inform Ms. Pont that the Grace Communities principals were all but out of business.

8 28. As of the date of the filing of this Complaint, Ms. Pont has not received any
9 return on her investment. Recently, without explanation nor disclosure, Blake closed his
10 office and did not leave forwarding information.

11 29. Ms. Pont has made demand for the return of her \$50,000 investment in the
12 Romeoville Project, but such demand has been denied.

13
14 COUNT ONE

15 **Securities Fraud – A.R.S. § 44-1991 *et seq.***

16 31. All the foregoing allegations are repeated as if set forth again in full.

17 32. The investment agreement described herein constitutes securities as
18 defined by A.R.S. §44-1801.

19 1. In connection with the aforementioned sales and purchases of securities,
20 Defendant Blake violated A.R.S. § 44-1991 by, in connection with a transaction or
21 transactions within or from this state involving an offer to sell or buy securities, and
22 sales of securities, directly and/or indirectly committing the following acts: (a) Blake
23 employed a device, scheme and/or artifice to defraud Ms. Pont by claiming that Grace
24 Communities was a successful local developer and showing her promotional materials
25 that were designed with the intent to deceive investors; (b) Blake made untrue
26 statements of material fact and omitted to state material facts necessary in order to

1 make the statements made, in the light of the circumstances under which they were
2 made, not misleading by failing to alert Ms. Pont to the highly speculative nature of the
3 Romeoville Project investment and assuring Ms. Pont that he had placed her in a secure
4 investment; and (c) Blake engaged in transactions, practices and courses of business
5 which operated and would operate as a fraud or deceit by claiming on multiple separate
6 occasions over the course of dealings between Ms. Pont and Blake that her investment
7 was secure.

8 2. Defendant Blake engaged in fraudulent conduct as described herein on
9 multiple separate occasions and made fraudulent statements both orally and in writing,
10 and such statements include, but are not limited to claiming that Grace Communities
11 was a successful local developer and showing Ms. Pont promotional materials that
12 were designed with the intent to deceive investors; by failing to alert Ms. Pont to the
13 highly speculative nature of the Romeoville Project investment and assuring Ms. Pont
14 that he had placed her money in a secure investment; and, claiming on multiple
15 separate occasions over the course of dealings between Ms. Pont and Blake that her
16 investment was secure.

17 3. As a further result of Defendant Blake's breaches and defaults, Ms. Pont is
18 entitled to reasonable attorney's fees and costs incurred herein, as provided for under
19 A.R.S. §§ 12-341 and 12-341.01(A). In the event of a default by Defendants such
20 reasonable attorney's fees which may be awarded are at a minimum \$1,500.

21 4. Ameritas is liable for all of the acts herein alleged against Blake through
22 theories of vicarious liability and/or agency.

23
24 COUNT TWO

25 **Consumer Fraud: Violation of the Arizona Consumer Fraud Act**

26 5. All the foregoing allegations are repeated as if set forth again in full.

1 6. The acts and practices of Defendants as alleged herein constitute violations
2 of the Arizona Consumer Fraud Act, A.R.S. § 44-1521 *et seq.* in that they constitute
3 deceptive acts and practices, fraud, false pretenses, false promises, misrepresentations,
4 concealment, suppression or omission of material fact in connection with the sale of
5 merchandise, as that term is defined under the Act and Arizona law.

6 7. Defendants intended that others rely on their deception, deceptive acts and
7 practices, frauds, false pretenses, false promises, misrepresentations and concealment,
8 suppression and omission of material facts.

9 8. Plaintiff did rely on Defendants' deceptive acts and practices, frauds, false
10 pretenses, false promises, misrepresentations and concealment, suppression and
11 omission of material facts by investing in the Romeoville Project.

12 9. Plaintiff has suffered damages in the form of her lost investment funds as a
13 result of her reliance on Defendants' deception, deceptive acts and practices, fraud,
14 false pretenses, false promises, misrepresentations and concealment, suppression and
15 omission of material fact in an amount to be proven at trial.

16 10. Ameritas is liable for all of the acts herein alleged against Blake through
17 theories of vicarious liability and/or agency.

18
19 COUNT THREE
20 Common Law Fraud

21 11. All the foregoing allegations are repeated as if set forth again in full.

22 12. Defendant Blake made material false representations to Ms. Pont of a then-
23 existing material fact that was sufficiently important to influence Ms. Pont's actions.
24 made fraudulent statements both orally and in writing, and such statements include, but
25 are not limited to claiming that Grace Communities was a successful local developer
26 and showing Ms. Pont promotional materials that were designed with the intent to
deceive investors; by failing to alert Ms. Pont to the highly speculative nature of the

1 21. Ameritas is liable for all of the acts herein alleged against Blake through
2 theories of vicarious liability and/or agency.

3
4 COUNT FOUR

5 **Negligent Misrepresentation**

6 22. All the foregoing allegations are repeated as if set forth again in full.

7 23. Defendant Blake negligently supplied information and/or failed to supply
8 information to Ms. Pont which was intended to guide her in her business decision to
9 invest in the Romeoville Project. The information Defendant Blake provided to Ms.
10 Pont was either false or incorrect information, or omitted or failed to disclose material
11 information. Defendant Blake failed to exercise care and competence in obtaining and
12 communicating information to Ms. Pont.

13 24. Defendant Blake supplied the information in the course of his business
14 and/or professional dealings with Ms. Pont, for the guidance of Ms. Pont in her
15 business transaction and intended that Ms. Pont rely on the information.

16 25. Ms. Pont relied on the truth of the misleading representations and/or
17 omissions made by Defendant Blake by deciding to invest in the Romeoville Project
18 and her reliance was reasonable and justified under the circumstances. The information
19 was supplied in a transaction in which the information was intended to influence Ms.
20 Pont's conduct.

21 26. As a result of Defendant Blake's negligent misrepresentations, Ms. Pont has
22 been damaged and is entitled to the investment agreement.

23 27. As a result of having negligently supplied information to Ms. Pont,
24 Defendants are subject to liability for the consequential harm caused by her reliance
25 upon the information supplied, in an amount to be proven at trial.

26 28. Ms. Pont has been damaged in an amount to be proven at trial.

1 29. Ameritas is liable for all of the acts herein alleged against Blake through
2 theories of vicarious liability and/or agency.

3 COUNT FIVE
4 Breach of Fiduciary Duty

5 94. All the foregoing allegations are repeated as if set forth again in full.

6 95. The relationship between Defendants Blake and Ameritas as Ms. Pont's
7 financial/investment advisor was fiduciary in nature and as such these Defendants owed
8 Ms. Pont the fiduciary duty to deal with her in the utmost of good faith and to conduct
9 their dealings with her with scrupulous honesty, skill, and diligence.

10 96. Defendants Blake and Ameritas breached that fiduciary relationship by
11 providing false information, failing to disclose other facts that were material to Ms.
12 Pont's decision to invest in the Romeoville Project, and failing to adequately investigate
13 and convey to Ms. Pont that the Romeoville Project was an inappropriate investment for
14 her, as is described more fully in the preceding paragraphs.

15 97. As a direct and proximate result of Defendants' breaches of fiduciary duty
16 Ms. Pont has been damaged in an amount to be determined at trial.

17
18 PRAYER

19 WHEREFORE, Plaintiff Pamela Pont asks for judgment as follows:

- 20 A. For damages from Defendants as determined at trial;
21 B. Punitive Damages;
22 C. For pre- and post-judgment interest from Defendants as provided by law;
23 D. For rescission and rescissionary damages;
24 E. For attorney's fees and costs from Defendants as determined at trial; and
25 F. For any other relief the Court deems appropriate.

26 Dated this 29th day of May 2013.

ACC000084
FILE #8451

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WILLIAM A. Miller, PLLC

By


William A. Miller
Attorney for Plaintiff Pamela Pont

ACC000085
FILE #8451

Mr. Blake's Response
to Attorney
Michael Salcido

Longest Drive LLC is a member owned LLC there was a \$200,000 investment made into Romeoville Office condo. Pam Pont has \$50,000, she would be responsible for 25% of legal fees. Longest Drive LLC does not have any assets or liabilities and no checkbook.

Jane Doe is Janice Blake; Pam has known Janice since 2000.

Olympus Financial Advisors Inc. is a MN corporation; it is a brand and does not have assets or liabilities, and no checkbook. Company has no value; MN attorney is Kevin Prohaska, Stoel Rives, LLP Minneapolis, MN

Pg 1 #25, Michael Blake is a member of Longest Drive LLC our trust has \$100,000 invested in the Romeoville Office Condo. Michael J Blake and Janice L Blake Trust

#4 Olympus Financial Advisors Inc. is a Minnesota Corporation

#8 All three Pont children have graduated from college. She has had a live in boyfriend Dennis Dermeyer since 2003. He helps pay her bills. Her ex husband paid for the children's college. Pam has worked full time for the last three years at Desert Trails Elementary.

#9 Ms. Pont became a client of Mr. Blake's April 17, 2003 and invested \$672,215. On May 29, 2013 Ms. Pont purchased a home for cash \$303,201. When Ms. Pont sold this home in 2012, she reinvested \$260,000 with Mr. Blake.

This \$672,215 is by no way an modest amount. Mr. Blake does not have any knowledge of how much Pont received in her divorce settlement initially.

#10 Ms. Pont knew Janice Blake from Cherokee Elementary School functions. Mr. Blake did not actually meet Ms. Pont until February 28, 2003 at her home for their initial meeting. Ms. Pont approached Mrs. Blake regarding Mr. Blake's financial advisory practice, because her previous financial advisor, Adam Weber, was churning her mutual funds through day trading of mutual funds through Vanguard.

11. Olympus Financial Advisors, Inc. was started November 1, 2002. Ms. Pont hired Mr. Blake on March 26, 2003.

12. Ms. Pont invested \$672,215 through Mr. Blake and Carillion Investments.

13. Ms. Pont has had investments with Carillon Investments (now Ameritas Investment Corp) since April 2003.

14. Deny. Ms. Pont received a credit enhancement of \$11,389.05 from Pacific Life, which is 3 times the amount of her surrender charge from John Hancock. A

surrender charge was disclosed and signed off by Ms. Pont , see attached documents from Pacific Life annuity sale. Pacific Life also offered superior retirement benefits.

15. Ms. Pont at a review meeting on 10/16/2006 asked Mr. Blake how the rich got rich, how does she have to invest to become rich. Mr. Blake explained that many rich individuals owned their own businesses or through inheritance. Ms. Pont laughed at that possibility. Ms. Pont wanted to be more aggressive with her investing and even asked about real estate. Her own home had increase in value substantially. Since she had the time and Dennis is a painter they could flip homes. Mr. Pont said she didn't want to do this because she didn't want to be in business with Dennis because he had income tax issues. Since they were living together, I referred her to attorney Steven Fox in order to protect her current assets. We set up a meeting for later that same day and Mr. Blake went to Ms. Pont's home and discussed with her the opportunity for her to invest in Romeoville Office condo's. He did stress that this was an outside business activity and had nothing to do with his work with now Ameritas Investment Corp. Mr. Blake gave her a copy of the Romeoville Office Condo offer memorandum and she signed the receipt. Ms. Pont wanted to invest \$100,000 and Mr. Blake backed her down to \$50,000. Ms. Pont took 3 days to review the materials and make her decision. She called and decided to invest. Ms. Pont signed the wire instruction on 10/19/2006 for \$50,000. She also approved the trade to clear the \$50,000.

\$50,000 was 13.9% of Ms. Pont's investable assets at the time not including a fully paid home. This is well within FINRA'S range of acceptance. On 10/16/2006, Ms. Pont had \$212,442 in an Ameritas Brokerage account and \$146,557 in an annuity.

16. Deny. All Romeoville Office Condo material and proforma information was generated by Grace Communities. Ms. Pont was given the Romeoville Office Condo offer memorandum.

17. Grace Communities in 2006 was considered a successful office condo developer.

18. Deny, Ms. Pont was only shown the offering memorandum for Romeoville Office Condo's.

19. All Romeoville Office Condo information was developed by Grace Communities.

20. Romeoville had not broken ground at the time of Ms. Pont's investment as stated in offering memorandum. Construction commenced in February 2007, per Grace Communities letter to investors dated February 22, 2007.

21. See #15 Deny, Ms. Pont's brokerage account was invested in growth model leaning towards aggressive in 10/16/2006. The stock market was trending up in 2006 as was real estate investing.

22. Ms. Pont paid cash for her last two homes and drives a late model Mercedes car. She received child support and college funds from her ex husband Jeff Pont. She has a live in boyfriend Dennis Dermeyer. Mr. Dermeyer contributes to their household expenses.

23. Deny

24. Deny. Making any recommendations, Mr. Blake never has had discretion authority over Ms. Pont's accounts. Mr. Blake presented an opportunity based on Ms. Pont's request to invest in real estate. Ms. Pont made up her own mind to invest.

25. Mr. Blake forwarded all communications from Grace Communities (all attached). 2009 communication says everything as not going well with this project. In the years 2008 and 2009 the entire world experienced a global real estate meltdown. Grace Communities was not immune to this real estate meltdown.

26. Deny. Ms. Pont received updated letters from Grace Communities from 2007-2009.

27. Deny. There was no such conversation.

28. Prior to Mr. Blake closing his office February 28, 2013, Ms. Pont had liquidated her account and the account of her father Les Weiss (deceased). She said she had bills to pay. During this time Ms. Pont also moved her annuity account to another brokerage firm without notifying Mr. Blake. Mr. Blake did not change his phone number.

29. There has been no such demand other than the blackmail letter dated April 3, 2013 from her attorney William A Miller Esq.

Count one

Deny all counts

Count two

1-10 Deny all counts

Count Three

11. Deny

12. Deny

13-29 Deny

14. I am also invested in Romeoville Office Condo's.

ACC000088

FILE #8451

Count Four
22-28 Deny

Count Five

#95 Mr. Blake made it clear that Longest Drive Llc was an outside business sctitivity and had no relationship to Amertias.

96 Deny

ACC000089
FILE #8451



Pacific Life Insurance Company
Variable Annuities
P.O. Box 2290
Omaha, NE 68103-2290
Telephone (800) 722-2333

June 20, 2008

page 3
#14 Response
Documents

JOHN HANCOCK

NH

Annuitant Name: PAMELA PONT
Joint/Contingent Annuitant Name:
Owner Name: PAMELA PONT
Joint/Contingent Owner Name:
Your Contract Number: 55001354
Our Contract Number: VR08032888

To Whom it May Concern:

The client referenced above has requested that your company liquidate and transfer the funds indicated on the attached Transfer of asset form from his/her IRA to Pacific Life Insurance Company. This letter acknowledges that we are prepared to accept these funds and place them into an IRA for the benefit of the individual named above.

Please make your check payable to:
Pacific Life Insurance Company
FBO: PAMELA PONT
Contract Number: VR08032888

Mail to:
Pacific Life Insurance Company
P.O. Box 2290
Omaha, NE 68103-2290

Overnight Delivery:
Pacific Life Insurance Company
1299 Farnam Street, 10th Floor, AMF
Omaha, NE 68102

Should you have any questions, please contact this office at the number included on this letter or the enclosed Transfer of Asset form. Thank you for your prompt attention to this matter.

Sincerely,

Lorene Gordon
Vice President, Operations
Annuities & Mutual Funds Division

Enclosures

TOA STMT REPL 15 DAY ORIG X LPA LOI SPEC PG 403B W9 CORP RES ORIG SIG APP COPY

DIST FORM SURR FORM DTH CRT R/O FORM ELECT FORM CORRS POA(copy) OTHER _____

O/N EXPRESS - FED EX # 9653 6326 1061

cc: MICHAEL J BLAKE
AMERITAS INVESTMENT CORP
5040 E SHEA BLVD STE 162
SCOTTSDALE, AZ 85254-4686

ACC000090
FILE #8451



* 2 0 1 1 - 1 A *



TRANSACTION Confirmation

P.O. Box 2876 Omaha, NE 68108-2876

|||||

PAGE 01 OF 03

Your Registered Representative:

MICHAEL J BLAKE
AMERITAS INVESTMENT CORP
5040 E SHEA BLVD STE 162
SCOTTSDALE AZ 85254-4686

Prepared For:

PAMELA PONT

AZ

Your Contract Information

PACIFIC VALUE EDGE

Contract #: VR08032888
Owner: PAMELA PONT
Annuitant: PAMELA PONT

Plan Type: IRA
Issued To Owner: 06/25/08
Portfolio Optimization: MODEL D-14

Transaction Summary As Of: 06/25/08

Date	Activity Type	Account	Transaction Amount	Number Of Units	Unit Value / Interest Rate
06/25/08	INITIAL PAYMENT	LARGE-CAP GROWTH	2,847.26	290.2990	9.808025
		SMALL-CAP GROWTH	2,847.26	290.6509	9.796152
		EMERGING MARKETS	5,694.53	623.3420	9.135482
		DIVERSIFIED RESEARCH	2,847.26	298.0938	9.551558
		INTERNATIONAL LARGE-CAP	11,389.05	1,216.2628	9.363971
		MAIN STREET CORE	5,694.53	589.7650	9.655592
		COMSTOCK	8,541.79	945.1467	9.037509
		GROWTH LT	4,270.90	444.0397	9.618285
		FOCUSED 30	1,423.63	150.8895	9.434920
		MID-CAP EQUITY	14,236.32	1,484.1854	9.592009
		INTERNATIONAL VALUE	12,812.68	1,394.8133	9.185946
		MID-CAP GROWTH	2,847.26	300.2676	9.482407
		EQUITY INDEX	5,694.53	605.9661	9.397440
		REAL ESTATE	2,847.26	318.2270	8.947262
		INFLATION MANAGED	11,389.05	1,146.3088	9.935412
		MANAGED BOND	5,694.53	590.3581	9.645892
		LARGE-CAP VALUE	8,541.79	918.6362	9.298338
		SHORT DURATION BOND	2,847.26	286.4529	9.939716

If you have any questions contact your Registered Representative. Visit us at www.PacificLife.com or call :
Contract Owners - 800-722-4448, Registered Representatives - 800-722-2333.

ACC000091
FILE #8451



TRANSACTION Confirmation

P.O. Box 2378 Omaha, NE 68103-2378

PAGE 02 OF 03

Contract #: VR08032888
Owner: PAMELA PONT
Annuitant: PAMELA PONT

Transaction Summary As Of: 06/25/08

Date	Activity Type	Account	Transaction Amount	Number Of Units	Unit Value Interest Rate
		SMALL-CAP VALUE	1,423.83	144.7375	9.835946
		AMERICAN GROWTH	5,894.53	584.3344	9.745327
		AMERICAN GROWTH-INCOME	7,118.18	753.7394	9.443795
		SMALL-CAP EQUITY	4,270.90	421.9867	10.120936
		INTERNATIONAL SMALL-CAP	4,270.89	444.5803	9.606567
		DIVERSIFIED BOND	2,847.26	292.8624	9.728821
		LONG/SHORT LARGE-CAP	4,270.90	449.5804	9.500169
	TOTAL		142,363.18		
06/25/08	CR ENHANCE	LARGE-CAP GROWTH	227.78	23.2238	9.808025
		SMALL-CAP GROWTH	227.78	23.2520	9.796152
		EMERGING MARKETS	455.56	49.8671	9.135482
		DIVERSIFIED RESEARCH	227.78	23.8474	9.551558
		INTERNATIONAL LARGE-CAP	911.12	97.3006	9.363971
		MAIN STREET CORE	455.56	47.1809	9.655592
		COMSTOCK	683.34	75.6115	9.037509
		GROWTH LT	341.67	35.5230	9.618285
		FOCUSED 30	113.89	12.0711	9.434920
		MID-CAP EQUITY	1,138.91	118.7353	9.592009
		INTERNATIONAL VALUE	1,025.01	111.5846	9.185946
		MID-CAP GROWTH	227.78	24.0213	9.482407
		EQUITY INDEX	455.56	48.4770	9.397440
		REAL ESTATE	227.78	25.4581	8.947262
		INFLATION MANAGED	911.12	91.7043	9.935412
		MANAGED BOND	455.56	47.2284	9.645892
		LARGE-CAP VALUE	683.34	73.4906	9.298338

ACC000092
FILE #8451



TRANSACTION Confirmation

P.O. Box 2378 Omaha, NE 68108-2378

PAGE 03 OF 03

Contract #: VR08032888
Owner: PAMELA PONT
Annuitant: PAMELA PONT

Transaction Summary As Of: 06/25/08

Date	Activity Type	Account	Transaction Amount	Number Of Units	Unit Value Interest Rate
		SHORT DURATION BOND	227.78	22.9181	9.939716
		SMALL-CAP VALUE	113.89	11.5790	9.835946
		AMERICAN GROWTH	455.56	46.7465	9.745327
		AMERICAN GROWTH-INCOME	569.45	60.2989	9.443795
		SMALL-CAP EQUITY	341.67	33.7587	10.120936
		INTERNATIONAL SMALL-CAP	341.67	35.5863	9.606567
		DIVERSIFIED BOND	227.78	23.4129	9.728821
		LONG/SHORT LARGE-CAP	341.71	35.9688	9.500169
	TOTAL		11,389.05		
06/25/08	CURRENT CONTRACT VALUE		153,752.21		

ACC000093
FILE #8451

Pacific Life Insurance Company
Variable Annuities
P.O. Box 2378 • Omaha, NE 68103-2378



ANNUITY CONTRACT DELIVERY RECEIPT

Contract #: VR08032888
Contract Issue Date: 06-25-2008
Owner: PAMELA PONT
Joint Owner:
Annuitant: PAMELA PONT
Joint Annuitant:

I acknowledge that I have received the contract listed above on this day, 7 13 08
mo day yr.

Signed:


Contract Owner's Signature

Joint Owner's Signature


Registered Representative's Signature

Once completed, please sign and return the original to the Home Office at:

Pacific Life & Annuity Company
Variable Annuities
P.O. Box 2378
Omaha, NE 68103-2378

05/07

ACC000094
FILE #8451



1109-07A

**PACIFIC LIFE**Print Page**Pacific Value Edge Standard Death Ben**

Contract Number **VR08032888**
 Owner **PAMELA PONT**
 Annuitant **PAMELA PONT**
 Plan Type **IRA**
 Portfolio Optimization **Model D14**
 Issue Date **06/25/2008**
 Rep of Record **MICHAEL J BLAKE**
 Total Premiums Paid **\$142,363.16**
 Surrender Value **\$142,220.79**
 YTD Number of Trades **0**

Contract Value on 06/25/2008**\$153,752.21**

Account values are updated at the close of each business day. Your account value as of (6/25/2008) is being displayed.

Investment Options	Manager	Units	Unit Values	Balance
Small-Cap Growth	Alger	313.9029	9.796152	3,075.04
International Value	AllianceBernstein	1,506.3979	9.185946	13,837.69
Long/Short Large-Cap	Analytic/JPMorgan	485.5292	9.500169	4,612.61
International Small-Cap	Batterymarch	480.1466	9.606567	4,612.56
Equity Index	BlackRock	654.4431	9.397440	6,150.09
Diversified Research	Capital Guardian	321.9412	9.551558	3,075.04
American Growth-Income	Capital Research	814.0383	9.443795	7,687.61
American Growth	Capital Research	631.0809	9.745327	6,150.09
Large-Cap Value	ClearBridge	992.1268	9.298338	9,225.13
Short Duration Bond	Goldman Sachs	309.3690	9.939716	3,075.04
Diversified Bond	JPMorgan	316.0753	9.728821	3,075.04
Growth LT	Janus	479.5627	9.618285	4,612.57
Focused 30	Janus	162.9606	9.434920	1,537.52
Mid-Cap Equity	Lazard	1,602.9207	9.592009	15,375.23
Large-Cap Growth	Loomis Sayles	313.5228	9.808025	3,075.04
International Large-Cap	MFS	1,313.5634	9.363971	12,300.17
Small-Cap Value	NFJ	156.3165	9.835946	1,537.52
Main Street Core	Oppenheimer	636.9459	9.655592	6,150.09
Emerging Markets	Oppenheimer	673.2091	9.135482	6,150.09
Managed Bond	PIMCO	637.5865	9.645892	6,150.09
Inflation Managed	PIMCO	1,238.0131	9.935412	12,300.17
Cornstock	Van Kampen	1,020.7602	9.037509	9,225.13
Mid-Cap Growth	Van Kampen	324.2889	9.482407	3,075.04
Real Estate	Van Kampen	343.6851	8.947262	3,075.04
Small-Cap Equity	Vaughan Nelson	455.7454	10.120936	4,612.57

ACC000095

FILE #8451

Account/Policy Number

RR#


 411006
 1108032444 076255

New Account Form

PO Box 5507 / Lincoln, NE 68505

800-335-9858 / Fax: (402) 465-6107 / tools4you.com

AIC12

I. Type of Account

■ Check Dept:

- ☐ Brokerage
☒ Direct Business (Mutual Fund)
☐ Variable Life or Annuity
☐ Advisory Services
☐ Other

■ Check One:

- ☐ Individual Account
☐ Traditional IRA*
☐ Roth IRA*
☐ Simple IRA*
☐ SEP IRA*
☐ Joint Account
- ☐ Tenants in Common*
☐ Community Property*
☐ 403(b)*
☐ 401(k)*
☒ Other:* Variable Annuity

- ☐ Trust*
☐ UGMA/UTMA
☐ 529 Plan

■ Check One:

- ☒ New
☐ Financial Update
☐ Re-registration
☐ Change Rep or B/D*
☐ Other:*

*Additional Documents Required

■ Primary Account Owner or Custodian

Name Pamela Pont

■ Joint Account Owner, Minor, or 529 Plan Beneficiary

Name _____

Mailing Address (If using a P.O. box, you must indicate your legal street address below.)

P.O. Box/Street Address _____

City, ST, ZIP _____

Birth Date _____

Country of Citizenship USA

Social Security/Tax ID # _____

Work # _____

Home # _____

ID Type Driver License

ID Number _____

State AZ

Exp. Date _____

E-mail Address PamelaPont321

Legal Address: (if different than mailing address listed above)

Street Address _____

City, ST, ZIP _____

Mailing Address (If using a P.O. box, you must indicate your legal street address below.)

P.O. Box/Street Address _____

City, ST, ZIP _____

Birth Date _____

Country of Citizenship _____

Social Security/Tax ID # _____

Work # _____

Home # _____

ID Type _____

ID Number _____

State _____

Exp. Date _____

E-mail Address _____

Legal Address: (if different than mailing address listed above)

Street Address _____

City, ST, ZIP _____

II. Suitability

Investment Experience
(number of years) 10Number of
Dependents 0Marital
Status SingleSpouse's
Name _____Number of
Spouse's Dependents _____

■ Investment Objectives If choosing more than one objective, please rank with "1" being the first objective.

☐ Safety of Principal ☐ Income ☐ Tax-Advantaged ☒ Growth ☐ Aggressive Growth
■ Risk Tolerance ☐ Conservative ☒ Moderate ☐ Speculative ☐ High Risk■ Time Horizon ☐ Short (0-5 years) ☐ Intermediate (6-10 years) ☒ Long (10+ years)

1a. Are you or the joint owner or any member of your families employed by or associated with a member of a stock exchange or the Financial Industry Regulatory Authority (FINRA)?

☒ NO ☐ YES

Explain: _____

1b. and/or a senior officer, director or 10% shareholder of a publicly traded company?

☒ NO ☐ YES

Explain: _____

2. Will someone other than investor(s) have trading authority? Authorizing documentation required.

☒ NO ☐ YES

Explain: _____

■ Primary/Custodian

Tax Bracket 15%Occupation Homemaker

Employment Status

- ☐ Employed ☐ Homemaker
☐ Self Employed ☐ Student
☐ Retired ☐ Unemployed

Employer's
Name _____Employer's
Address _____

AIC 12 Rev. 8-07

ACC000096
FILE #8451

	Liquid Annual Income	Net Worth*	Net Worth*	* cash investments excluding primary residence
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Less than \$25,000
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$25,000-50,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$50,000-75,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$75,000-100,000
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$100,000-150,000
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	\$150,000-200,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$200,000-300,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$300,000-400,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$400,000-500,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$500,000-750,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$750,000-1,000,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$1,000,000-1,500,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Greater than \$1,500,000

■ Joint

Tax Bracket _____

Occupation _____

Employment Status

- ☐ Employed ☐ Homemaker
☐ Self Employed ☐ Student
☐ Retired ☐ Unemployed

Employer's
Name _____Employer's
Address _____

	Liquid Annual Income	Net Worth*	Net Worth*	* cash investments excluding primary residence
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Less than \$25,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$25,000-50,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$50,000-75,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$75,000-100,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$100,000-150,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$150,000-200,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$200,000-300,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$300,000-400,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$400,000-500,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$500,000-750,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$750,000-1,000,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$1,000,000-1,500,000
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Greater than \$1,500,000

Initial Transaction to be Completed by the RepresentativeDescription **1035 exchange variable annuity**Dollar Amount \$ **146,000.00**Is RR registered in the state of customer's residence? . . . ☒ YES ☐ NO**Source of Funds Information for This Account (mark all that apply)**

- | | |
|--|---|
| <input type="checkbox"/> Personal Check | <input type="checkbox"/> Securities liquidation from previous broker/dealer |
| <input type="checkbox"/> Check from _____ | <input type="checkbox"/> Fixed Insurance Policy |
| <input checked="" type="checkbox"/> 1035 Exchange | <input type="checkbox"/> Inheritance |
| <input type="checkbox"/> Change of Broker/Dealer | <input type="checkbox"/> Employment Retirement Accounts - Job Termination |
| <input type="checkbox"/> Transfer In-Kind | <input type="checkbox"/> Required Distribution |
| <input type="checkbox"/> Money Market Funds from _____ | <input type="checkbox"/> Distribution Not Required |
| How long? _____ | <input type="checkbox"/> Other |
| <input type="checkbox"/> Bank CD liquidation | |

III. Required for Brokerage Accounts If not completed, default is hold and no sweep.**Purchases**

- ☐ Hold securities in the account
☐ Send me certificates for purchases (if available)

Sales Proceeds

- ☐ Hold proceeds in brokerage account
☐ Remit all proceeds to me upon trade settlement

Money Market Settlement Sweep

I have selected the _____ money market fund for automatic sweep settlement and hereby acknowledge that I have received and read the prospectus for this fund. If left blank, default is the Fidelity Prime Daily Money Fund (FDAXX) for National Financial and Federated Capitol Reserve (FCR) for Pershing.

Dividends and Interest NOTE: Selections below depend on your clearing house. Please read and mark carefully.

- | | | | |
|--------------------------|--------------------------|--|-------------------------------|
| P | N | P = Pershing | N = National Financial |
| <input type="checkbox"/> | <input type="checkbox"/> | Pay all in cash and hold in my account. | |
| <input type="checkbox"/> | <input type="checkbox"/> | Pay all in cash and send me a check: (Weekly option available only through National Financial.)
<input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Semi-monthly <input type="checkbox"/> Quarterly | |
| N/A | <input type="checkbox"/> | Pay all in cash and send via EFT to my bank account.
(NFS Brokerage Account Earnings Distribution Plan Form Required) | |
| N/A | <input type="checkbox"/> | Reinvest all mutual fund dividends; stock dividends will be paid in cash and held in account. | |
| N/A | <input type="checkbox"/> | Reinvest all stock dividends; mutual fund dividends will be paid in cash and held in account.** | |
| N/A | <input type="checkbox"/> | Reinvest both mutual fund and stock dividends.** | |

** = NFS Equity Dividend Reinvestment Form Required for stock dividend reinvestment.

IV. Certify Your Social Security or Tax ID Number

Tax Certification: Under penalties of perjury, I certify that: 1. the number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me). 2. I am not subject to backup withholdings because (a) I am exempt from backup withholding or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding. 3. I am a U.S. person (including a U.S. resident alien). Note: You must cross out (b) above if you are currently subject to backup withholding because of underreporting interest or dividends on your tax return. For Payers Exempt From Backup Withholding (if you are unsure, ask us for a complete set of IRS instructions), write the word "Exempt"

here: _____ If this is a joint account, the Social Security number of the account owner who is named FIRST in the account title MUST be used.

V. Signatures Please review your information, read the Agreement, and sign below.

NOTICE: I/We agree that this document contains a pre-dispute arbitration clause, which appears in the disclosure booklet at paragraphs 13 and 14. By signing below, you are representing the accuracy of the above information and receiving copies of all required customer information.

X Pamela Pot 6-12-08
Primary Account Owner/Custodian Signature Date

By signing above, I acknowledge that I have received a current copy of the prospectus(es) as applicable, a copy of this form, and an AIC disclosure booklet (which contains the Pre-Dispute Arbitration Agreement, Privacy Notice, and various other disclosure documents). This signature also serves as a certification of W-9 Social Security Verification.

X _____
Joint Account Owner Signature Date

X MW 7/16 6-16-08
Registered Representative Signature Date

By signing above, I acknowledge that I have given the above client(s) a current copy of the prospectus(es) as applicable.

X _____
OSJ/Principal Signature Date

Michael J. Blake **076255**
Registered Representative Printed Name Rep Number

ACC000097
FILE #8451

Variable Annuity Disclosure Form



VADIS

Pamela Pont

Account Owner(s)

Pacific Life Value Edge Annuity

Product Name

[REDACTED]

Tax ID/SSN #

Pacific Life Insurance Co.

Issuer

I. Variable Annuity Product Information

A. EXPENSES

I understand that insurance benefits of a variable product may have a higher expense level than other investment alternatives. These may include daily mortality charges and other monthly or annual administrative fees. These have been taken into account while making an investment decision.

Annual Asset-based expenses

M&E charges	1.50 %
Admin. charges	0.25 %
Other asset-based product charges	0.90 %
Elected Rider Foundations 10	.85 %
Elected Rider	%
Elected Rider	%
Elected Rider	%
TOTAL	3.5 %

*Underlying subaccount expenses will vary depending on the investment option selected. See the prospectus and speak to your Registered Representative for details.

B. SURRENDER CHARGES/PERIOD

Annuity Surrender Charge Period (# of years) 9

Maximum Surrender Charge ____%

Variable Annuity Policy Time Horizon: ☐ Short (0-4 years) ☐ Intermediate (5-9 years) ☒ Long (10+ years)

C. INTENDED USE OF CONTRACT (Mark all that apply.)

☐ Death Benefit

☐ Growth and Immediate Income

☒ Income at Retirement

☐ Immediate Income

☐ Tax Deferred Growth

Other _____

II. Existing Investments

Existing Investments and Insurance (Please indicate % of net worth as captured on the AIC 12 form.)

50.00 % General Securities (Stocks, Bonds, CD's, Mutual Funds, UIT's)

____% Cash or Equivalents

50.00 % Annuities

____% Life Insurance (Cash Value)

____% Other (Alternative Investments i.e. Limited Partnerships, REITs)

III. Important Information About Your Variable Annuity

Elected Riders - I understand the impact of withdrawals or additional investments on elected riders, including IRS required minimum distributions if applicable. I understand how such withdrawals impact the benefit base, regardless of surrender penalty. I understand any applicable annuitization or payout requirements to activate the benefit features of elected riders. I have read the prospectus and understand the impact elected riders have on my subaccount selections of the contract, including any authority of the issuing company to modify those selections.

Bonus Features - I understand that a "bonus credit" offered by the insurance company may result in higher fees and expenses, higher surrender charges, and longer surrender period than a non-bonus product. I have read the prospectus and understand the impact of "bonus credits" for this product.

Qualified Plan Purchase - I understand that the tax deferred accrual features of the variable annuity product provide no additional tax benefits within my tax-qualified account. I affirm that the variable annuity is being selected based on other benefits.

Age 70 or Older - I understand that annuities are usually long term investments that may have surrender charges for withdrawals, and that this purchase meets my investment time horizon.

High Concentration and/or Large Dollar Amount - I understand that there may be surrender charges to access the funds being invested during the surrender period and that the value will fluctuate depending on the selected investment allocations. I also acknowledge that if this investment constitutes either greater than 25% of my annual income, greater than 25% of my net worth, or is greater than \$150,000, I have sufficient funds to meet my expected short term cash needs.

Withdrawals/Liquidations - I understand that an annuity is generally a long-term investment. If I make a partial withdrawal at any time, I understand withdrawal charges may apply if the withdrawal is more than the terms the contract will allow. I understand the original investment and its earnings will not be available for withdrawal without a tax penalty until after age 59 ½. There may be exceptions to this through the IRS code. If necessary, I will consult my tax advisor on this issue.

Variable Annuity Disclosure Form - continued

IV. Variable Insurance Product Replacement

Is this variable annuity a result of a replacement of an existing variable insurance product? ☒ Yes ☐ No
 (If the answer to the above question is yes, this section **must** be completed in its entirety and will not be processed without complete information. If the answer is no, then continue to page 3.)

Please note: A separate form must be fully completed for each variable insurance policy if more than one variable insurance policy is being replaced.
 (This form, AIC 638, replaces the submission of a completed Acknowledgement of Investment Product Change Form, AIC 297, for 1035 Exchanges.)

1. Did you work with the same representative when you purchased your existing policy? ☒ Yes ☐ No
 2. Have you had any other variable annuity replacements in the past 36 months? ☐ Yes ☒ No
 If Yes:

Estimated number of contract replacements. _____

Estimated dollar amount of the replaced policies \$ _____

If Yes, please explain in detail why the replacements occurred:

Existing Policy Information

Issuer and Product Name	<u>John Hancock</u>	Issue Date	<u>04/17/2003</u>
Surrender Charge	<u>\$ 3,700.00</u>	Current Cash Value	<u>\$ 149,700.00</u>
M&E Charges	<u>1.6 %</u>	Death Benefit Value	<u>\$ 149,700.00</u>

Please list any riders on the existing policy.

Rider Name	Description	Cost
<u>GRIB</u>	<u>Guaranteed income based on paid in premiums</u>	<u>.45 %</u>
_____	_____	_____ %
_____	_____	_____ %

Please Note: In some instances you can add comparable contract features to your existing contract, therefore avoiding potential surrender charges and new surrender periods. You may also be forfeiting a guaranteed death benefit value that is non-transferable. You and/or your Registered Representative should contact the product sponsor of the existing policy for further information.

Where was the information about the existing policy obtained?

☐ Contract ☐ Contract Statement ☒ Contacted the Insurance Company ☐ Other _____

What is the reason for the replacement? Please explain in detail below.

☒ Enhanced Product Features

☒ Living Benefits (explain) Foundations 10 provides 10% annual growth and 5% withdrawals for lifetime

☐ Death Benefits (explain) _____

☐ Other (explain) _____

☐ Reduced Expenses (explain) _____

☐ Available investment options (explain) _____

☐ Other (explain) _____

Variable Annuity Disclosure Form - continued

V. Investment Product Change

Is this variable annuity purchase a result of the liquidation of a securities product other than a variable insurance product? ☐ Yes ☐ No

(If the answer to the above question is yes, this section must be completed in its entirety and will not be processed without complete information. If the answer is no, then complete the form with signatures and signature dates below. This form, AIC 638, replaces the submission of a completed Acknowledgement of Investment Product Change form, AIC 297, for liquidations of securities products to purchase a variable annuity. If more than one account or product is being liquidated, please attach additional pages as needed.)

A. Existing Account or Investment Name _____ Account # _____
Type of Investment:

☐ Mutual Fund - list funds and share class(es) _____

☐ Direct Participation Program ☐ Unit Investment Trust ☐ Other _____

Existing Account Holding Period _____ Original Registered Rep Name _____
Years and months

B. For Completion by Client - please answer the following questions:

1. Will you incur a surrender charge on your existing investment as a result of this transaction? ☐ Yes ☐ No

If yes, list approximate dollar amount of surrender charge \$ _____

2. As a result of this change, my investment risk is: ☐ increased, ☐ decreased, or ☐ about the same

C. Explanation for change (attach an additional page, if necessary)

1. Material facts on which the recommendation to liquidate the original investment is based.

2. Material Facts on which the recommendation to purchase the new investment is based.

D. As a client I understand:

- It is not the Company's policy to recommend the sale and purchase of securities unless a person's investment or personal objectives can be better served.
- I may incur a capital gain tax liability on any profit realized thus reducing my investment capital by the extent of such capital gain tax liability if any. For retirement accounts, there may be federal income tax penalties for withdrawals before age 59 ½. I have been advised to consult a tax advisor for information on the tax implications of this change.
- Management, administrative and other fees, such as 12 b-1 distribution expenses, vary by fund family and variable insurance company. I have received and reviewed the prospectus/policy for specific information about any additional fees associated with the proposed investment.

VI. Signature

By signing below, I confirm that I have received a copy of the prospectus and have reviewed the prospectus, specifically including but not limited to the disclosure contained therein regarding market risk, sales and surrender charges, fees and expenses, and availability of a "free-look" period. I have been advised of the risks involved in the investment.

I realize that the investment is not guaranteed and the contract value will fluctuate with the investment performance of the subaccounts I have selected. I understand Variable Annuities are subject to investment risk including loss of principal. I understand that a variable product is not guaranteed by any government agency and that any guarantees of insurance benefits are subject to the claims paying ability of the insurance company issuing the variable policy. I understand that by purchasing this investment, my registered representative will receive compensation for this transaction.

My signature below confirms I have read and understand the disclosure form, including all disclosure statements, and that all applicable blanks on this form have been completed and the information completed is correct to the best of my knowledge, and indicates my consent to this transaction.

Pamela Pint
Account Owner Signature

6-12-08
Date

Account Owner Signature

Date

By signing below, the Representative acknowledges that he/she has reasonable grounds for believing that this recommendation is suitable for the client based on the facts disclosed by said client as to his/her investment and other insurance products, financial situation and needs.

AK 1/16
Representative Signature

RR #

076255

Date

Supervising Principal Signature

Date



Pacific Life Insurance Company
P.O. Box 2378 • Omaha, NE 68103-2378
www.PacificLife.com
Contract Owners: (800) 722-4448

VALUE EDGE
Application

Registered Representatives
call (800) 722-2333 for assistance.

ARIZONA

Upon written request, we will provide you within a reasonable time, reasonable factual information regarding the benefits and provisions of the annuity contract. If, for any reason, you are not satisfied with the contract, you may return it within ten (10) days (OR THIRTY (30) DAYS IF YOU ARE SIXTY-FIVE (65) YEARS OF AGE OR OLDER ON THE DATE OF THE APPLICATION FOR THE ANNUITY CONTRACT) after you receive it. To do so, mail it to us at our service center or to the agent who sold it to you. The contract will then be deemed void from the beginning. No withdrawal charge will be imposed, and we will refund the contract value, including any fees or charges for premium taxes and/or other taxes that were deducted from the contract value.

1. ANNUITANT(S) Must be an individual. Check product guidelines for maximum issue age.

Name (First, Middle, Last) Pamela Pont		Birth Date (mo/day/yr) [REDACTED]	Sex <input type="checkbox"/> M <input checked="" type="checkbox"/> F
Mailing Address [REDACTED]	City, State, ZIP [REDACTED] AZ [REDACTED]	SSN [REDACTED]	
Residential Address (if different than mailing address) [REDACTED]	City, State, ZIP [REDACTED]		
Solicited at: State _____ Complete this box for custodial-owned qualified contracts only. Will not be valid for any other contract types. Information put here will be used for contract and registered representative appointment purposes.			

ADDITIONAL ANNUITANT Not applicable for qualified contracts. Check One: ☐ Joint ☐ Contingent

Name (First, Middle, Last)		Birth Date (mo/day/yr)	Sex <input type="checkbox"/> M <input type="checkbox"/> F
Mailing Address	City, State, ZIP	SSN	
Residential Address (if different than mailing address)	City, State, ZIP		

2. OWNER(S) If annuitant and owner are the same, do not complete this section. Check product guidelines for maximum issue age. For contracts with an owner that is a 401(a), 401(k) or Keogh/HR10 plan, also complete the Qualified Plan and 457(b) Plan Disclosure form. For Individual(k) contracts with BISYS as the recordkeeper, also complete the Individual(k) Qualified Plan Disclosure form. For individual-owned or trust-owned Inherited IRA contracts, also complete the appropriate Inherited IRA Certification form. For non-qualified contracts, if the owner is a non-natural person or corporation, also complete the Non-Natural or Corporate-Owned Disclosure Statement. If the owner is a trust, also complete the Trustee Certification and Disclosure form.

Name (First, Middle, Last)		Birth Date (mo/day/yr)	Sex <input type="checkbox"/> M <input type="checkbox"/> F
Mailing Address	City, State, ZIP	SSN/TIN	
Residential Address (if different than mailing address)	City, State, ZIP		

ADDITIONAL OWNER Not applicable for qualified contracts. Check One: ☐ Joint ☐ Contingent

Name (First, Middle, Last)		Birth Date (mo/day/yr)	Sex <input type="checkbox"/> M <input type="checkbox"/> F
Mailing Address	City, State, ZIP	SSN	
Residential Address (if different than mailing address)	City, State, ZIP		

25-1143AZ

05/08

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FILE #8451

3. DEATH BENEFIT COVERAGE

☐ Stepped-Up Death Benefit Annuitant(s) must not be over age 75 at issue.

If the stepped-up death benefit I have selected cannot be added to the contract due to age restrictions or state availability, I understand that the contract will be issued without the stepped-up death benefit rider.

4. TELEPHONE/ELECTRONIC AUTHORIZATIONS



TELEPHONE/ELECTRONIC TRANSACTION AUTHORIZATION As the owner, I will receive this privilege automatically. If a contract has joint owners, each owner may individually make telephone and/or electronic requests. By checking "yes," I am also authorizing and directing Pacific Life to act on telephone or electronic instructions from any other person(s) who can furnish proper identification. Pacific Life will use reasonable procedures to confirm that these instructions are authorized and genuine. As long as these procedures are followed, Pacific Life and its affiliates and their directors, trustees, officers, employees, representatives and/or agents, will be held harmless for any claim, liability, loss or cost.

ELECTRONIC DELIVERY AUTHORIZATION By providing my e-mail address below, I authorize Pacific Life to provide my statements, prospectuses and other information (documents) electronically instead of sending paper copies of these documents by U.S. mail. I will continue to receive paper copies of annual statements. I understand that I must have internet access (my internet provider may charge for internet access) and I must provide my e-mail address below to use this service.



E-mail address: _____

5. BENEFICIARIES If a beneficiary classification is not indicated, the class for that beneficiary will be primary. Multiple beneficiaries will share the death benefit equally, unless otherwise specified. For non-individually owned custodially held IRAs, 457 and qualified plans, if no beneficiary is listed, the beneficiary will default to the owner listed on the application. Unless otherwise indicated, proceeds will be divided equally. Use Special Requests section to provide additional beneficiary information.

Name (First, Middle, Last) Ryan, Daniel Jeff Pont Custodian for and Lauren Pont	Birth Date (mo/day/yr) see below	<input checked="" type="checkbox"/> Primary <input type="checkbox"/> Contingent	Relationship children	SSN/TIN see below	Percentage 100 %
Name (First, Middle, Last)	Birth Date (mo/day/yr)	<input type="checkbox"/> Primary <input type="checkbox"/> Contingent	Relationship	SSN/TIN	Percentage %

6. CONTRACT TYPE Select ONE.

<input type="checkbox"/> Non-Qualified	<input type="checkbox"/> SIMPLE IRA ¹	<input type="checkbox"/> Roth IRA	<input type="checkbox"/> 401(a) ²	<input type="checkbox"/> Individual(k) ⁴	<input type="checkbox"/> 457(b) - 501(c) tax exempt ³
<input checked="" type="checkbox"/> IRA	<input type="checkbox"/> SEP-IRA	<input type="checkbox"/> TSA/403(b) ¹	<input type="checkbox"/> 401(k) ²	<input type="checkbox"/> 457(b) - gov't. entity ³	<input type="checkbox"/> Keogh/HR10 ³

¹ Complete SIMPLE IRA Employer Information. ² Complete TSA Certification. ³ Complete Qualified Plan and 457(b) Plan Disclosure. ⁴ Complete Individual(k) Qualified Plan Disclosure.

7. INITIAL PURCHASE PAYMENT Make check payable to Pacific Life Insurance Company.

7A. NON-QUALIFIED CONTRACT PAYMENT TYPE

Indicate type of initial payment.

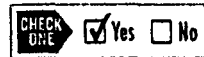
<input type="checkbox"/> 1035 exchange/estimated transfer \$ _____
<input type="checkbox"/> Amount enclosed \$ _____

7B. QUALIFIED CONTRACT PAYMENT TYPE Indicate type of initial payment. If no year is indicated, contribution defaults to current tax year.

<input checked="" type="checkbox"/> Transfer \$ 100% _____
<input type="checkbox"/> Rollover \$ _____
<input type="checkbox"/> Contribution \$ _____ for tax year _____

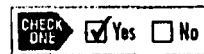
8. REPLACEMENT

8A. EXISTING INSURANCE



Do you have any existing life insurance or annuity contracts with this or any other company?
(Default is "Yes" if neither box is checked)

8B. REPLACEMENT



Will the purchase of this annuity result in the replacement, termination or change in value of any existing life insurance or annuity in this or any other company? If "yes", provide the information below for each policy or contract being replaced and attach any required state replacement and/or 1035 exchange/transfer forms.

Insurance Company Name John Hancock Scudder Wealthmark	Contract Number 55001354	Contract Type Being Replaced <input type="checkbox"/> Life Insurance <input type="checkbox"/> Fixed Annuity <input checked="" type="checkbox"/> Variable Annuity
Insurance Company Name	Contract Number	Contract Type Being Replaced <input type="checkbox"/> Life Insurance <input type="checkbox"/> Fixed Annuity <input type="checkbox"/> Variable Annuity

9. SPECIAL REQUESTS If additional space is needed, attach letter signed and dated by the owner(s).

Portfolio Optimization Model D		
Ryan Pont	SSN [REDACTED]	33.3%
Dan Pont	SSN [REDACTED]	33.3%
Lauren Pont	SSN [REDACTED]	33.4%

25-1143AZ

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FILE #8451

10. OPTIONAL RIDERS Subject to state availability. To qualify for Foundation10, Flexible Lifetime Income, Income Access, GIA Plus or GPA3 rider benefits, the entire contract value must stay invested in an approved asset allocation program established and maintained by Pacific Life for the riders.

10A. Guaranteed Withdrawal Benefit (Select one)

- ☒ **Foundation10** Annuitant(s) must not be over age 85 at issue.
☐ **Income Access** Annuitant(s) must not be over age 85 at issue.
☐ **Automatic Reset/Step-Up Option**
☐ **Flexible Lifetime Income** (Select one) If neither box below is checked, the single life optional rider will be issued.
☐ **Single Life** Annuitant(s) must not be over age 85 at issue.
☐ **Joint Life**

(Complete the beneficiary information in Section 5.) Available only if the Contract Type selected in Section 6 is Non-Qualified (not available if the Owner is a trust or other entity), IRA (including custodial IRAs), Roth IRA, SIMPLE IRA, SEP-IRA or TSA/403(b). Additionally, Joint Owners or Owner and Beneficiary must be at least age 59½ and not older than age 85 at issue. Joint Owners must be husband and wife. If the contract is owned by a sole Owner, the Owner's spouse must be designated as the sole primary beneficiary. If this is a custodially owned IRA, it is the responsibility of the custodian to verify that the beneficiary designation at the custodian is the spouse of the Annuitant and is at least age 59½ and not older than age 85 at issue.

10B. ☐ **GIA Plus** Annuitant(s) must not be over age 80 at issue.

10C. ☐ **GPA3** Annuitant(s) must not be over age 85 at issue, which must be at least 10 years prior to the annuity date.

10D. ☐ **EEG** Annuitant(s) must not be over age 75 at issue.

If any rider selected in this section cannot be added to the contract due to age and/or other rider restrictions or state availability, the contract will be issued without that rider.

11. ALLOCATION OPTIONS Use whole percentages only. Allocations must total 100%. Complete Transfers and Allocations form for dollar cost averaging and rebalancing.

Manager:	Investment Options	Manager:	Investment Options
Alger	_____ % Small-Cap Growth	Oppenheimer	_____ % Multi-Strategy
AllianceBernstein	_____ % International Value		_____ % Main Street® Core
			_____ % Emerging Markets
Analytic Investors/ JPMorgan	_____ % Long/Short Large-Cap	PAM	_____ % Money Market
			_____ % High Yield Bond
Batterymarch	_____ % International Small-Cap	PIMCO	_____ % Managed Bond
BlackRock	_____ % Equity Index		_____ % Inflation Managed
	_____ % Small-Cap Index	Van Kampen	_____ % Comstock
Capital Guardian	_____ % Diversified Research		_____ % Mid-Cap Growth
	_____ % Equity		_____ % Real Estate
Capital Research	_____ % American Funds® Growth-Income	Vaughan Nelson	_____ % Small-Cap Equity
	_____ % American Funds® Growth		
ClearBridge	_____ % Large-Cap Value	Asset Allocation Strategies†:	
Columbia	_____ % Technology	AllianceBernstein	_____ % VPS Balanced Wealth Strategy
Goldman Sachs	_____ % Short Duration Bond	BlackRock	_____ % Global Allocation V.I. Fund
Highland Capital	_____ % Floating Rate Loan	Franklin Templeton	_____ % Franklin Templeton VIP Founding Funds
JPMorgan	_____ % Diversified Bond	† 100% allocation to one or a combination of these three strategies is approved for selection of an optional rider in Section 10.	
Janus	_____ % Growth LT		
	_____ % Focused 30		
Jennison	_____ % Health Sciences	DCA	_____ % DCA Plus Fixed Option with a Guarantee Term of _____ months
Lazard	_____ % Mid-Cap Equity	Indicate percentage of premium payment to be allocated to the DCA Plus Fixed Option and complete the DCA section of the Transfers and Allocations form.	
Loomis Sayles	_____ % Large-Cap Growth		
MFS	_____ % International Large-Cap		
NFJ	_____ % Small-Cap Value		

MUST TOTAL 100% _____



12. STATEMENT OF OWNER(S) I understand that federal law requires all financial institutions to obtain the name, residential address, date of birth and Social Security or taxpayer identification number, and any other information necessary to sufficiently verify the identity of each customer. I understand that failure to provide this information could result in the annuity contract not being issued, delayed or unprocessed transactions or annuity contract termination. I, the owner(s), understand that I have applied for an individual flexible premium deferred variable annuity contract ("contract") issued by Pacific Life Insurance Company ("company"). I received prospectuses for this variable annuity contract. After reviewing my financial background with my registered representative, I believe this contract, including the benefits of its insurance features, will meet my financial objectives based in part upon my age, income, net worth, tax and family status, and any existing investments, annuities, or other insurance products I own. If applicable, I considered the appropriateness of full or partial replacement of any existing life insurance or annuity. I also considered my liquidity needs, risk tolerance and investment time horizon when selecting variable investment options. I understand the terms and conditions related to any optional rider applied for and believe that the rider(s) meet(s) my insurable needs and financial objectives. **I UNDERSTAND THAT BENEFITS AND VALUES PROVIDED UNDER THE CONTRACT MAY BE ON A VARIABLE BASIS. AMOUNTS DIRECTED INTO ONE OR MORE VARIABLE INVESTMENT OPTIONS WILL REFLECT THE INVESTMENT EXPERIENCE OF THOSE INVESTMENT OPTIONS. THESE AMOUNTS MAY INCREASE OR DECREASE, AND ARE NOT GUARANTEED AS TO DOLLAR AMOUNT.** I have discussed all fees and charges for this contract with my registered representative, including withdrawal charges. I understand that if I cancel a contract issued as a result of this application without penalty during the Right to Cancel initial review period, depending upon the state where my contract is issued, it is possible the amount refunded may be less than the initial amount I invested due to the investment experience of my selected investment options.

If there are joint owners, the issued contract will be owned by the joint owners as Joint Tenants With Right of Survivorship and not as Tenants in Common.

I certify, under penalties of perjury, that I am a U.S. person (including a U.S. resident alien) and that the taxpayer identification number is correct.

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which may be a crime and may subject such person to criminal and civil penalties.

Owner's Signature SIGN HERE <i>Pamela Punt</i>	Date (mo./day/yr) DATE 6/12/08	Signed at: City CITY [REDACTED]	State STATE AZ
Joint Owner's Signature (if applicable) SIGN HERE	Date (mo./day/yr) DATE		

13. REGISTERED REPRESENTATIVE'S STATEMENT

13A. **CHECK ONE** ☒ Yes ☐ No Do you have any reason to believe that the applicant has any existing life insurance policies or annuity contracts? (Default is "Yes" if neither box is checked.)

13B. **CHECK ONE** ☒ Yes ☐ No Do you have reason to believe that any existing life insurance policy or annuity contract has been (or will be) surrendered, withdrawn from, loaned against, changed or otherwise reduced in value, or replaced in connection with this transaction assuming the contract applied for will be issued?

If "Yes", I affirm that I have instructed the applicant to answer "yes" to the replacement question in Section 8B of this application. I hereby certify that I have used only Pacific Life's approved sales material in connection with this sale and that copies of all sales materials used were left with the applicant. Any insurer-approved electronically presented sales materials will be provided in printed form to the applicant no later than at the time of the policy or contract delivery. I further certify that I have discussed the appropriateness of replacement, and followed Pacific Life's written replacement guidelines.

I have explained to the owner(s) how the annuity will meet their insurable needs and financial objectives.

I certify that I have reviewed this application, and have determined that its proposed purchase is suitable as required under law, based in part upon information provided by the owner, as applicable, including age, income, net worth, tax and family status, and any existing investments and insurance program.

I further certify that I have also considered the owner's liquidity needs, risk tolerance, and investment time horizon, that I followed my broker/dealer's suitability guidelines in both the recommendation of this annuity and the choice of investment options, and that this application is subject to review for suitability by my broker/dealer.

Soliciting Registered Representative's Signature SIGN HERE <i>[Signature]</i>	Print Registered Representative's Full Name Michael J. Blake
Registered Representative's Telephone Number 480 607-6558	Registered Representative's E-Mail Address mblake@ofapeak.us
Broker/Dealer's Name Ameritas Investment Corp	Option <input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C
	Brokerage Account Number (optional)

Send completed application as follows:

APPLICATION WITH PAYMENT:

Regular Mail Delivery: P.O. Box 2290, Omaha, NE 68103-2290

Express Mail Delivery: 1299 Farnam Street, 10th Floor, AMF, Omaha, NE 68102

APPLICATION WITHOUT PAYMENT:

Regular Mail Delivery: P.O. Box 2378, Omaha, NE 68103-2378

Express Mail Delivery: 1299 Farnam Street, 10th Floor, AMF, Omaha, NE 68102

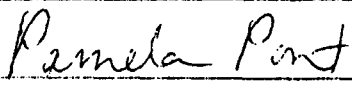



12. STATEMENT OF OWNER(S) I understand that federal law requires all financial institutions to obtain the name, residential address, date of birth and Social Security or taxpayer identification number, and any other information necessary to sufficiently verify the identity of each customer. I understand that failure to provide this information could result in the annuity contract not being issued, delayed or unprocessed transactions or annuity contract termination. I, the owner(s), understand that I have applied for an individual flexible premium deferred variable annuity contract ("contract") issued by Pacific Life Insurance Company ("company"). I received prospectuses for this variable annuity contract. After reviewing my financial background with my registered representative, I believe this contract, including the benefits of its insurance features, will meet my financial objectives based in part upon my age, income, net worth, tax and family status, and any existing investments, annuities, or other insurance products I own. If applicable, I considered the appropriateness of full or partial replacement of any existing life insurance or annuity. I also considered my liquidity needs, risk tolerance and investment time horizon when selecting variable investment options. I understand the terms and conditions related to any optional rider applied for and believe that the rider(s) meet(s) my insurable needs and financial objectives. **I UNDERSTAND THAT BENEFITS AND VALUES PROVIDED UNDER THE CONTRACT MAY BE ON A VARIABLE BASIS. AMOUNTS DIRECTED INTO ONE OR MORE VARIABLE INVESTMENT OPTIONS WILL REFLECT THE INVESTMENT EXPERIENCE OF THOSE INVESTMENT OPTIONS. THESE AMOUNTS MAY INCREASE OR DECREASE, AND ARE NOT GUARANTEED AS TO DOLLAR AMOUNT.** I have discussed all fees and charges for this contract with my registered representative, including withdrawal charges. I understand that if I cancel a contract issued as a result of this application without penalty during the Right to Cancel initial review period, depending upon the state where my contract is issued, it is possible the amount refunded may be less than the initial amount I invested due to the investment experience of my selected investment options.

If there are joint owners, the issued contract will be owned by the joint owners as Joint Tenants With Right of Survivorship and not as Tenants in Common.

I certify, under penalties of perjury, that I am a U.S. person (including a U.S. resident alien) and that the taxpayer identification number is correct.

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which may be a crime and may subject such person to criminal and civil penalties.

Owner's Signature 	Date (mo/day/yr) DATE 6/18/08	Signed at: City CITY [REDACTED]	State STATE AZ
Joint Owner's Signature (if applicable) 	Date (mo/day/yr) DATE		

13. REGISTERED REPRESENTATIVE'S STATEMENT

13A. ☒ Yes ☐ No Do you have any reason to believe that the applicant has any existing life insurance policies or annuity contracts? (Default is "Yes" if neither box is checked.)

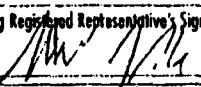
13B. ☒ Yes ☐ No Do you have reason to believe that any existing life insurance policy or annuity contract has been (or will be) surrendered, withdrawn from, loaned against, changed or otherwise reduced in value, or replaced in connection with this transaction assuming the contract applied for will be issued?

If "Yes", I affirm that I have instructed the applicant to answer "yes" to the replacement question in Section 8B of this application. I hereby certify that I have used only Pacific Life's approved sales material in connection with this sale and that copies of all sales materials used were left with the applicant. Any insurer-approved electronically presented sales materials will be provided in printed form to the applicant no later than at the time of the policy or contract delivery. I further certify that I have discussed the appropriateness of replacement, and followed Pacific Life's written replacement guidelines.

I have explained to the owner(s) how the annuity will meet their insurable needs and financial objectives.

I certify that I have reviewed this application, and have determined that its proposed purchase is suitable as required under law, based in part upon information provided by the owner, as applicable, including age, income, net worth, tax and family status, and any existing investments and insurance program.

I further certify that I have also considered the owner's liquidity needs, risk tolerance, and investment time horizon, that I followed my broker/dealer's suitability guidelines in both the recommendation of this annuity and the choice of investment options, and that this application is subject to review for suitability by my broker/dealer.

Soliciting Registered Representative's Signature 	Print Registered Representative's Full Name Michael J. Blake
Registered Representative's Telephone Number 480 607-6558	Registered Representative's E-Mail Address mblake@ofapeak.us
Broker/Dealer's Name Ameritas Investment Corp	Brokerage Account Number (optional)

Option ☐ A ☒ B ☐ C

Send completed application as follows:

APPLICATION WITH PAYMENT:

Regular Mail Delivery: P.O. Box 2290, Omaha, NE 68103-2290

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Regular Mail Delivery: P.O. Box 2378, Omaha, NE 68103-2378

Express Mail Delivery: 1299 Farnam Street, 10th Floor, AMF, Omaha, NE 68102

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FILE #8451

V





PACIFIC LIFE

Pacific Life Insurance Company
P.O. Box 2378 • Omaha, NE 68103-2378
www.PacificLife.com • (800) 722-4448

REPLACEMENT NOTICE

IMPORTANT NOTICE: REPLACEMENT OF LIFE INSURANCE OR ANNUITIES

This document must be signed by the applicant(s) and the producer, if there is one, and a copy left with the applicant(s).

1 REQUIRED QUESTION FOR APPLICANT:

Do you have any existing life insurance policies or annuity contracts with this or any other company? ☒ Yes ☐ No

If you answered "NO" to the above question, both the applicant(s) and producer must sign this form on page 2, and submit this form with the application. There is no need to complete any further information. If you answered "YES" to the above question, please continue.

2 You are contemplating the purchase of a life insurance policy or annuity contract. In some cases this purchase may involve discontinuing or changing an existing policy or contract. If so, a replacement is occurring. Financed purchases are also considered replacements.

A replacement occurs when a new policy or contract is purchased and, in connection with the sale, you discontinue making premium payments on the existing policy or contract, or an existing policy or contract is surrendered, forfeited, assigned to the replacing insurer, or otherwise terminated or used in a financed purchase.

A financed purchase occurs when the purchase of a new life insurance policy involves the use of funds obtained by the withdrawal or surrender of or by borrowing some or all of the policy values, including accumulated dividends, of an existing policy to pay all or part of any premium or payment due on the new policy. A financed purchase is a replacement.

You should carefully consider whether a replacement is in your best interests. You will pay acquisition costs and there may be surrender costs deducted from your policy or contract. You may be able to make changes to your existing policy or contract to meet your insurance needs at less cost. A financed purchase will reduce the value of your existing policy and may reduce the amount paid upon the death of the insured.

We want you to understand the effects of replacements before you make your purchase decision and ask that you answer the following questions and consider the questions on the back of this form.

1. Are you considering discontinuing making premium payments, surrendering, forfeiting, assigning to the insurer, or otherwise terminating your existing policy or contract? ☒ Yes ☐ No

2. Are you considering using funds from your existing policies or contracts to pay premiums due on the new policy or contract? ☒ Yes ☐ No

If you answered "yes" to either of the above questions, list each existing policy or contract you are contemplating replacing (include the name of the insurer, the insured or annuitant, and the policy or contract number if available) and whether each policy or contract will be replaced or used as a source of financing:

1. Insurer Name John Hancock	Contract/Policy Number 55001354	Insured/Annuitant Pamela Pont	<input checked="" type="checkbox"/> Replaced <input type="checkbox"/> Financing
2. Insurer Name	Contract/Policy Number	Insured/Annuitant	<input type="checkbox"/> Replaced <input type="checkbox"/> Financing
3. Insurer Name	Contract/Policy Number	Insured/Annuitant	<input type="checkbox"/> Replaced <input type="checkbox"/> Financing

Make sure you know the facts. Contact your existing company or its agent for information about the old policy or contract. If you request one, an in force illustration, policy summary or available disclosure documents must be sent to you by the existing insurer. Ask for and retain all sales material used by the agent in the sales presentation. Be sure that you are making an informed decision.

The existing policy or contract is being replaced because:

New investment options and living benefit riders



3 IMPORTANT NOTE TO PRODUCER: (The information contained in this box is provided for the producer and does not have to be read aloud to applicant); If the applicant answered "YES" to either question 1 or 2 above, then by signing below, the producer is making the following additional certification.

PRODUCER CERTIFICATION FOR REPLACEMENT TRANSACTION I hereby certify that I have used only the insurer's approved sales material in connection with this sale and that copies of all sales materials used were left with the applicant. Any insurer-approved electronically presented sales materials will be provided in printed form to the applicant no later than at the time of the policy or contract delivery. I further certify that this replacement transaction follows the insurer's written replacement guidelines.

4 SIGNATURES

I certify that the responses herein are, to the best of my knowledge, accurate:

SIGN HERE Pamela Pont Pamela Pont 6-12-08
Applicant's Signature Applicant's Name (Please Print) Date

SIGN HERE _____ Joint Applicant's Signature _____ Joint Applicant's Name (Please Print) _____ Date

SIGN HERE Michael J. Blake Michael J. Blake _____
Producer's Signature Producer's Name (Please Print) Date

I do not want the notice read aloud to me. _____ (Applicants must initial only if they do not want the notice read aloud.)

A replacement may not be in your best interest, or your decision could be a good one. You should make a careful comparison of the costs and benefits of your existing policy or contract and the proposed policy or contract. One way to do this is to ask the company or agent that sold you your existing policy or contract to provide you with information concerning your existing policy or contract. This may include an illustration of how your existing policy or contract is working now and how it would perform in the future based on certain assumptions. Illustrations should not, however, be used as a sole basis to compare policies or contracts. You should discuss the following with your agent to determine whether replacement or financing your purchase makes sense:

PREMIUMS:

- Are they affordable?
- Could they change?
- You're older — are premiums higher for the proposed new policy?
- How long will you have to pay premiums on the new policy? On the old policy?

POLICY VALUES:

- New policies usually take longer to build cash values and to pay dividends.
- Acquisition costs for the old policy may have been paid; you will incur costs for the new one.
- What surrender charges do the policies have?
- What expense and sales charges will you pay on the new policy?
- Does the new policy provide more insurance coverage?

INSURABILITY:

- If your health has changed since you bought your old policy, the new one could cost you more, or you could be turned down.
- You may need a medical exam for a new policy.
- Claims on most new policies for up to the first two years can be denied based on inaccurate statements.
- Suicide limitations may begin anew on the new coverage.

IF YOU ARE KEEPING THE OLD POLICY AS WELL AS THE NEW POLICY:

- How are premiums for both policies being paid?
- How will the premiums on your existing policy be affected?
- Will a loan be deducted from death benefits?
- What values from the old policy are being used to pay premiums?

IF YOU ARE SURRENDERING AN ANNUITY OR INTEREST SENSITIVE LIFE PRODUCT:

- Will you pay surrender charges on your old contract?
- What are the interest rate guarantees for the new contract?
- Have you compared the contract charges or other policy expenses?

OTHER ISSUES TO CONSIDER FOR ALL TRANSACTIONS:

- What are the tax consequences of buying the new policy?
- Is this a tax free exchange? (See your tax advisor.)
- Is there a benefit from favorable "grandfathered" treatment of the old policy under the federal tax code?
- Will the existing insurer be willing to modify the old policy?
- How does the quality and financial stability of the new company compare with your existing company?





Pacific Life Insurance Company
P.O. Box 2378 • Omaha, NE 68103-2378
(800) 722-4448 – Contract Owners
(800) 722-2333 – Registered Representatives
www.PacificLife.com • fax (888) 837-8172

TRANSFER/EXCHANGE

Use this form for the following transfer/exchanges from another financial institution to an annuity contract at Pacific Life:

- Full or partial 1035(a) tax free exchange of an existing non-qualified annuity.
- Full 1035(a) tax free exchange of an existing life insurance policy.
- Transfer of IRA, TSA/403(b) or pretax qualified plan assets into another IRA, TSA/403(b) or qualified plan.
- Transfer of assets from a mutual fund or certificate of deposit.

Note: Pacific Life will not accept a transfer of IRA, TSA/403(b), or qualified plan assets into a 457(b).

Pacific Life will process a transfer/rollover of assets into a TSA/403(b) only if the TSA/403(b) owner/participant's employer or employer's third-party administrator authorizes and signs this transfer request in Section 5.

For 1035 exchanges:

If no cost basis information is received from the surrendering company, Pacific Life will be required to assume the cost basis is zero for tax-reporting purposes.

1 GENERAL INFORMATION	Owner's Name Pamela Pont	SSN/TIN [REDACTED]	Existing Pacific Life Annuity Contract Number (if applicable)
	Joint/Contingent Owner's Name		SSN
	Annuitant's Name Pamela Pont		SSN
	Joint/Contingent Annuitant's Name		SSN
2 SURRENDERING REQUEST	Name John Hancock	Surrendering Company's Contract/Account Number 55001354	
	Street Address for Overnight Delivery [REDACTED]	Telephone Number [REDACTED]	
	City [REDACTED]	State NH	ZIP [REDACTED]

3 TRANSFER REQUEST

Complete only ONE of the following sections and indicate percentage or dollar amount to be transferred.

- ☐ **A) Nonqualified Assets: Authorization for 1035(a) Tax-Free Exchange Assets** Select one.

If none selected, all the assets will be exchanged.

☐ Full

☐ Partial \$ _____ or _____ % of the assets

I fully assign and transfer all claims, options, privileges, rights, title, and interest to either all of the life insurance policy or all or part of the annuity contract identified in Section 2 above to Pacific Life. The sole purpose of this assignment is to effect a tax free exchange under Section 1035(a) of the Internal Revenue Code. All of the powers, elections, appointments, options, and rights I have as owner of the contract, including the right to surrender, are now exercisable by Pacific Life. I understand that Pacific Life intends to surrender the contract (or if this is a partial exchange, the dollars or percentage assigned) for the cash value, subject to its terms and conditions, and to use the proceeds as the purchase payment for a new annuity contract to be issued by Pacific Life or as the subsequent payment to an existing annuity contract issued by Pacific Life. I authorize the surrendering company to send the proceeds directly to Pacific Life and understand that fees and charges may apply. This exchange is subject to acceptance by Pacific Life. Pacific Life is not liable for changes in market value that may occur before the proceeds are received by Pacific Life in good order and allocated to the new or existing (in the case of an annuity-to-annuity exchange) annuity contract. Prior to the date of receipt of the proceeds by Pacific Life, no value will accrue or be earned on the Pacific Life contract.

If this is a partial exchange, I understand that it is subject to Revenue Ruling 2003-76, which requires that the cost basis of the original contract be reduced pro rata by the amount of the transfer to the new contract. It is also subject to all current and future IRS guidance and regulations. I understand that the IRS has concerns about taxpayers using partial annuity exchanges to avoid tax obligations, and I certify that I am not entering into this transaction for the purpose of reducing or avoiding taxes or early withdrawal penalties. I also understand that there may be tax and tax reporting consequences for withdrawals taken after a partial exchange. I have been directed to consult my tax or legal advisor before proceeding.





TRANSFER/EXCHANGE

3 TRANSFER REQUEST (Continued)

I authorize Pacific Life to rely upon the cost basis information provided by the surrendering company, but agree that Pacific Life will assume no responsibility for determining or verifying cost basis. If cost basis is not provided, I acknowledge that more restrictive or less beneficial tax rules may apply to the amounts transferred.

I acknowledge that Pacific Life provides this form and participates in this transaction as an accommodation to me. Pacific Life does not give tax or legal advice and assumes no responsibility or liability for the validity of this assignment or for the tax treatment of this exchange under IRC Section 1035(a) or other regulations.

☐ **B) Nonqualified: Authorization for Transfer of Assets from a Mutual Fund or Certificate of Deposit**

I direct the institution named in Section 2 to convert to cash the assets held for the owner in the account provided and to transfer this money to Pacific Life Insurance Company. I have completed an application for the issuance of an annuity contract or have an existing annuity contract to receive the transferred money.

Date Select one. If none selected, the assets will be transferred or rolled over immediately.

☐ Immediately

☐ Date / /
mo day yr

Assets Select one. If none selected, all the assets will be transferred or rolled over.

☐ All of the assets

☐ Other

☐ % of the assets

\$

☒ **C) Qualified and 457(b) Governmental Assets: Authorization for Transfer/Direct Rollover**

As owner of the plan indicated below, I direct the institution named in Section 2 to convert to cash the assets in the account and transfer money to Pacific Life. I understand that the transfer/rollover will be initiated when all requirements are received in good order. If I am setting up a new Pacific Life annuity contract with this transfer/direct rollover, I have completed and attached a new contract application. If I am rolling over assets from one type of employer sponsored plan or IRA to a different type of employer-sponsored plan or IRA, I certify that all of the assets being rolled over are pretax assets. I am aware that once the assets are rolled over into my existing Pacific Life contract, they will be subject to the federal tax rules applicable to the assets currently in that contract. If any assets are being rolled over from a 457(b) plan, I certify that the 457(b) plan is that of a government entity and that the plan document allows for this rollover. I understand that Pacific Life is NOT currently permitting transfers from other qualified retirement plans, 403(b)s, and IRAs into 457(b)s. I have discussed the tax consequences of rollovers with my tax advisor.

Date Select one. If none selected, the assets will be transferred or rolled over immediately.

☒ Immediately

☐ Date / /
mo day yr

Assets Select one. If none selected, all the assets will be transferred or rolled over.

☒ All of the assets

☐ Other

☐ % of the assets

\$

Type of Plan Surrendered Select one

☒ IRA

☐ SEP-IRA

☐ SIMPLE IRA

☐ Roth IRA

☐ 401(a)

☐ 401(k)

☐ Keogh

☐ 457(b) Governmental

☐ TSA/403(b)

4 RETURN OF LIFE INSURANCE POLICY OR ANNUITY CONTRACT—Does not apply to partial 1035 exchanges of annuity contracts.

Unless the surrendering company's policy or contract is attached, I affirm that the policy or contract has been destroyed or lost and that reasonable effort has been made to locate it. To the best of my knowledge, no one else has any right, title or interest in the contract, nor has it been assigned, pledged, or encumbered.





TRANSFER/EXCHANGE

5 FOR TRANSFERS AND ROLLOVERS TO TSA/403(b) CONTRACTS—EMPLOYER/THIRD-PARTY ADMINISTRATOR INFORMATION AND AUTHORIZATION Please provide the following information.

Employer Information (Required)

Employer's Name

Street Address

City, State & ZIP

Contact Person's Name and Title

Contact Person's Telephone Number

()

Third-Party Administrator (Required unless self-administered)

Third-Party Administrator's Name

Street Address

City, State & ZIP

Contact Person's Name and Title

Contact Person's Telephone Number

()

Transfer/Rollover Type: (Select one)

☐ TSA/403(b) to TSA/403(b) transfer

☐ Rollover from IRA/qualified plan assets to a TSA/403(b)

By signing below, I am acknowledging that:

(a) I am authorizing this transfer/rollover request.

(b) I am confirming that there is an information sharing agreement in place with Pacific Life under 403(b) regulations.

(c) All information provided on this form is accurate.

Employer or Third-Party Administrator's Signature

mo / day / yr

6 REGISTERED REPRESENTATIVE INFORMATION Name

Michael J. Blake

Broker/Dealer

Ameritas Investment Corp

Telephone Number

(480) 607-6558

Estimated Transfer Amount

\$146,000

7 OWNER(S) SIGNATURE(S) AND AUTHORIZATION(S) If this transfer/exchange is a replacement of an existing life insurance or annuity contract, I have reviewed and discussed this with my registered representative and believe this transaction meets my insurable needs and financial objectives. I have considered and reviewed with my registered representative all relevant information relating to both the surrendering company's and Pacific Life's contracts, including but not limited to differences, if any, in contract terms, risks, fees, charges, and new surrender charges and periods (if applicable). If validation of the information provided is necessary, clarification will be obtained from the registered representative. I confirm that there is an information sharing agreement in place with Pacific Life and that Pacific Life may share information with my employer regarding activity on my contract.

Pamela Port

Owner's Signature

6, 12, 08

mo / day / yr

Joint Owner's Signature

mo / day / yr

FOR SURRENDERING COMPANY USE ONLY

Accepted by: (Signature of Authorized Officer of Pacific Life)

FOR ALL 1035 EXCHANGES, BE SURE TO COMPLETE THE COST BASIS INFORMATION FORM FOR THE CURRENT CONTRACT.

Make your check payable to Pacific Life Insurance Company for the benefit of the owner named in Section 1.

Send all checks to:

Pacific Life Insurance Company
P.O. Box 2290
Omaha, NE 68103-2290

Overnight address:

Pacific Life Insurance Company
1299 Farnam Street, 10th Floor, AMF
Omaha, NE 68102





#4 #26
Response
Documents

Romeoville Office Investors, LLC

December 11, 2009

Investors

Good News! We have been successful in extending our loan with Union National Bank of Elgin for three years. We had to pay a steep renewal fee for Union to be willing to do this during these odd times but, at the end of the day we are very pleased to be able to get (renew) credit in any form.

The icing on the cake is the fact that Union National is also funding the construction proceeds necessary to build out the entire building with finished "decorator ready" suites. Union Bank has agreed to increase our loan amount to include the build out of "decorator ready" finished spec suites throughout the entire building. These finished suites should have the benefit of allowing prospective buyers to better visualize their office space and therefore make a buying decision quicker. Furthermore, potential buyers are complaining about spending time designing and building out their own space instead of spending that same time protecting and growing their primary business. Two years ago most buyers liked the notion of customizing their own space and working with interior designers to put a personal touch on their professional home. That luxury or ego proposition is now a detriment to that same buyer profile. Fortunately, our lender agreed with our analysis and is willing to adjust to these difficult times.

We do have approx 10,000 sq ft in active discussions on the space but we do not believe that these buyers will sign until we have completed the build out of the building over the next 120 days.

We hope that you all agree with this strategy to continue to enhance the project value through the "decorator ready" suites and buying the needed time with Union National in an effort to work toward repaying your original investment.

Although we are not proud of the fact, we feel it is important to share that we have been unable to continue all our personal obligations. This includes our inability to pay our personal home mortgages. We have also had the Grace office foreclosed on in the past month and unfortunately, we had to shut down Grace Communities. Clearly, this represents a personal financial disaster and at this time we are trying to avoid personal bankruptcy as we navigate these unprecedented times. Obviously, we shared this information with Union National Bank. They remain equally yoked with our desire and efforts to keep this project alive.

Our commitment to you is to continue to work on this project but we know this will take time. We appreciate your continued support through this difficult time and wish all of you and your families a good holiday

ACC000111

Sincerely,

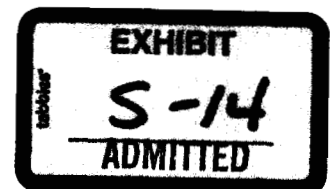
FILE #8451

Donald J. Zelcznak

Donald J. Zelcznak
Manager

Jonathon Vento

Jonathon Vento
Manager





Romeoville Office Investors, LLC

August 24, 2009

Investors,

In an effort to reposition the project in the market place, we have redesigned the interior of the building to introduce a lobby, internal corridors, and common restrooms. Given this change, the market is considering this building as a class "A" alternative. We are currently working with the lender to provide the funding that is necessary to effectuate this change. Since announcing this change, we have been able to secure a 5000 sq. ft. letter of intent buyer for medical use. We have also been short listed for an additional 10,000 sq. ft. medical space buyer as well as a 10,000 sq. ft. IT company lease.

Despite this new momentum, prices remain weak. We are currently selling for slightly above the debt value. We anticipate as the project sells out we will be able to raise prices in an effort to recapture some of the equity. It remains a slow process but we continue to fight. If you have any questions please do not hesitate to call or email DeeAnn Mooney 480-767-5245 email damooney1@aol.com. All future updates will be emailed.

Sincerely,

Donald J. Zeleznak

Donald J. Zeleznak
Manager

Jonathon Vento

Jonathon Vento
Manager

ACC000112
FILE #8451



Romeoville Office Investors, LLC

March 23, 2009

Construction

Construction is complete.

Financing

As we stated in our last update, we are unsure of the overall profitability of the project until we can stabilize the sales activity. Once we stabilize the sales velocity we should have a clearer idea of the project status. We believe we have enough interest reserve to last through 2009 so long as our lender continues to work with us.

Sales for the last 6 months have been non-existent. Most potential buyers have elected to extend their current leases and maintain their businesses at their current locations until the overall economy improves. We are still working with the medical group however, they have reduced their square footage needs down to 2,500 s.f. They have selected their contractor for the interior improvements and have been pre-approved by their lender. We are expecting them to close in April but it is difficult to "force" them to close. Additionally, we are anticipating a Letter of Intent from a 2000 s.f. chiropractic group at roughly \$140 p.s.f. Closing is expected around May 2009. There are several other users looking at the building at this time however, they are expecting substantial discounts in order to move forward. We will touch base with you when we have further news to share..

If you have any questions please do not hesitate to call or email DeeAnn Mooney 480-767-5245 email damooney1@aol.com. If we do not have an email address on file this will be your last update. All future updates will be emailed.

Sincerely,

Donald J. Zeleznak
Manager

Jonathon Vento
Manager



Romeoville Office Investors, LLC

August 13, 2008

Construction

Construction is complete. The project was finished approximately \$2.00 p.s.f. below budget.

Marketing

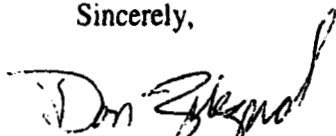
We have closed on a 1,500 s.f. space. We are in escrow with a 5,000 s.f. medical user and anticipate closing on or about August 31, 2008. This medical user is considering taking some additional space for expansion. We are also negotiating with a 4,000 s.f. medical user and a 1,500 s.f. general office user. We are currently offering these spaces at a substantial discount (\$125-145 p.s.f.) in an effort to create some momentum. The overall economy has substantially reduced our ability to consummate deals. Similar to the residential market, buyers remain hesitant to move forward in purchasing space until the overall economy stabilizes.


Financing

Based on current sales activity, we are planning to have the construction loan retired by year end however; the profitability of the project is suffering due to the current economic conditions. We are unsure of the overall profitability of the project until we can stabilize the sales activity. Once we stabilize the sales velocity we should have a clearer idea of the project status.

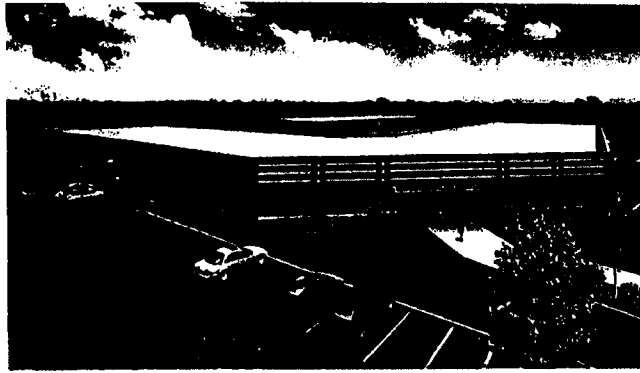
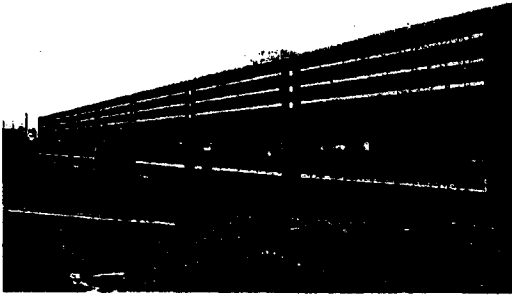
If you have any questions please do not hesitate to call or email DeeAnn Mooney
480-767-3162 email damooney1@aol.com.

Sincerely,


Donald S. Zelenak
Manager


Jonathon Vento
Manager

ACC000114
FILE #8451



Romeoville Office Investors, LLC

August 22, 2007

Architectural

The architectural plans are complete with rendering and site plan attached. Permits have been completed.

Civil Engineering

Preliminary grading and drainage plans are complete. City has approved our plans.

Condo Plat/Public Report

Completed and will be amended as future sales occur.

Construction

Shell construction will be completed by mid September. We have started construction on 7,500 square feet of spec suites which is greatly enhancing the marketing program.

Marketing

We have a 3,000 square foot letter of intent and are actively negotiating an additional 10,000 square feet of different usages. We expect to be 50% sold by March, 2008, and the balance sold by September, 2008.

Financing

The property has been acquired.

All loans and equity funds are in place.

If you have any questions please do not hesitate to call or email DeeAnn Mooney 480-767-3162 email dmooney1@aol.com.

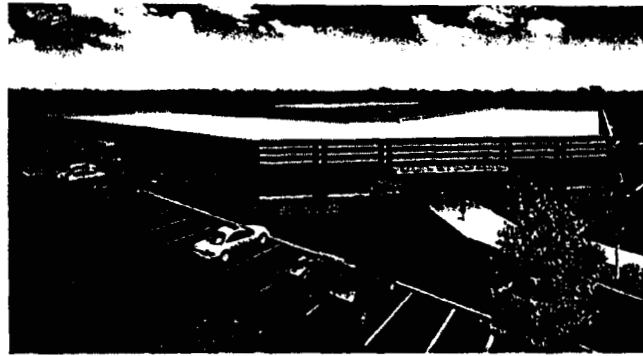
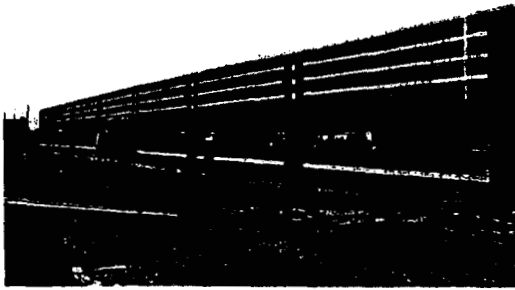
Sincerely,

Donald J. Zeleznak

Jonathon Vento

Ryan Zeleznak

ACC000115
FILE #8451



Romeoville Office Investors, LLC

May 21, 2007

Architectural

The architectural plans are complete with rendering and site plan attached. Permits have been completed.

Civil Engineering

Preliminary grading and drainage plans are complete. City has approved our plans.

Condo Plat/Public Report

Completed and will be amended as future sales occur.

Construction

Construction has commenced and is anticipated being completed this summer.

We are currently at our original budget.

Marketing

Sales brochures are being created. A postcard mailer has been sent out. Project signage is installed. A project model and material boards have been prepared. Presentations have commenced to potential buyers for spaces in the 50,000 sq. ft. available. We anticipate receiving initial Letters of Intent once the building has been framed in.

Financing

The property has been acquired.

All loans and equity funds are in place.

If you have any questions please do not hesitate to call or email DeeAnn Mooney 480-767-3162 email damooney1@aol.com.

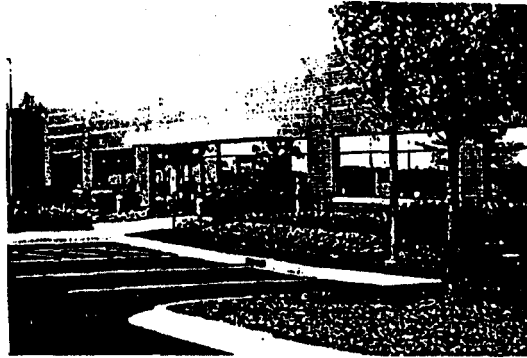
Sincerely,

Donald J. Zeleznak

Jonathon Vento

Ryan Zeleznak

ACC000116
FILE #8451



Romeoville Office Investors, LLC

February 22, 2007

Architectural

The architectural plans are complete with rendering and site plan attached. Permits have been completed.

Civil Engineering

Preliminary grading and drainage plans are complete. City has approved our plans.

Condo Plat/Public Report

Completed and will be amended as future sales occur.

Construction

Construction has commenced.

We are currently at our original budget.

Marketing

Sales brochures are being created. A postcard mailer has been sent out. Project signage is installed. A project model and material boards have been prepared. Presentations have commenced to potential buyers for spaces in the 30,000 sq. ft. available. Presentations and Letters of intent are to be issued 1st quarter of 2007.

Financing

The property has been acquired.

All loans and equity funds are in place.

Sincerely,

Donald J. Zeleznak

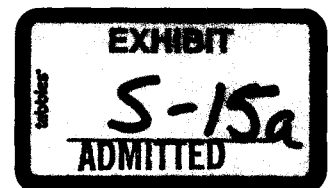
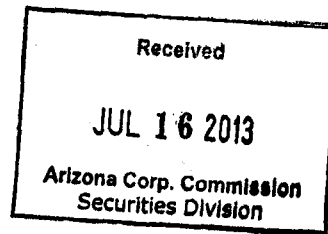
Jonathon Vento

Ryan Zeleznak

ACC000117
FILE #8451

Finally, regarding the on going FINRA investigation, a hearing is scheduled to be held from September 24-27, 2013. Currently we are negotiating with FINRA for a settlement. I have attached the original Wells letters and my responses. My Wells response is an excellent summary of my case.

It bears repeating that FINRA approved my registration on May 24, 2013.



ACC000118
FILE #8451

FINRA
SETTLEMENT OFFER

BuchalterNemer
A Professional Law Corporation

16435 NORTH SCOTTSDALE ROAD, SUITE 440 SCOTTSDALE, ARIZONA 85254-1134
TELEPHONE (480) 383-1800 / FAX (480) 824-9400

Direct Dial Number: (480) 383-1845
Direct Facsimile Number: (480) 383-1602
E-Mail Address: rhall@buchalter.com

May 28, 2013

Via E-Mail and U.S. Mail

Helen G. Barnhill, Esq.
Senior Regional Counsel
FINRA
4600 South Syracuse Street, Suite 1400
Denver, CO 80237

Re: Michael Blake; Disciplinary Proceeding No. 20100217105-01
Mr. Blake's Settlement Offer

Dear Ms. Barnhill:

This will constitute Mr. Blake's settlement offer to FINRA.

The very first principle of the FINRA Sanction Guidelines—indeed the very first line—is that “sanctions are remedial in nature and should be designed to deter future misconduct and to improve overall business standards in the securities industry.” FINRA Sanction Guidelines, General Principles Applicable to All Sanction Determinations (“General Principles”), section 1 (heading).

As set forth in his Answer, Mr. Blake relied on written information from Grace Communities that the investments being made were not securities. Additionally, and more importantly, every year he disclosed his actions to each of his broker-dealers, on his Outside Business Activities reports. None of his broker-dealers, AXA Advisors, Carillon, or Ameritas, ever made any objection to his actions with Longest Drive. Nor did either of them ever tell him that he was dealing in securities. Further, Mr. Blake's business, Olympus Financial Advisors LLC, received in-person audits of his files every year, and his broker-dealers still never identified anything that was wrong or told him that anything was wrong.

Perhaps most importantly, though, Mr. Blake never received any compensation from Longest Drive or any of its investors as a result of the work he did through or for Longest Drive. Not a dime.

ACC000119
FILE #8451

BuchalterNemer

Helen G. Barnhill, Esq.

May 28, 2013

Page 2

Based upon the written assurances from Grace Communities, his own broker-dealers' lack of objection or warning, and the fact that he received no compensation, Mr. Blake had no idea that he was dealing in securities. He therefore had no "intent" to engage in any prohibited actions.

Indeed, Mr. Blake's entire goal in forming Longest Drive was to allow friends and family to invest, if they chose to, in what seemed to nearly everyone at the time, to be a red-hot and ever-improving real-estate market. Since Mr. Blake did not receive any compensation whatsoever for his work with Longest Drive, his motivation in telling his friends and family about those investment opportunities was certainly not driven by any financial incentive. And given the FINRA scrutiny that has rained down on him as a result of providing that opportunity, there is absolutely zero chance that Mr. Blake will ever engage in any investment-related outside business activities in the future.

It would therefore not serve the Sanction Guidelines' mandate that sanctions be "remedial" and "designed to deter future misconduct" if Mr. Blake were given a severe sanction, since doing so would then be more in the nature of punishment, rather than the remediation and deterrence mandated by the Sanction Guidelines.

The Sanction Guidelines also state that "[d]isciplinary sanctions should be more severe for recidivists." FINRA Sanction Guidelines, General Principles, section 2 (heading). Until his involvement with Longest Drive, Mr. Blake had a spotless record. He never had any complaints, and had never been investigated by FINRA. He had certainly never been sanctioned by FINRA. Mr. Blake is therefore not a recidivist. And since the Sanction Guidelines reserve severe sanctions for recidivists, Mr. Blake's sanction should not be severe.

The Sanction Guidelines additionally state that "where the violative conduct was unintentional or negligent . . . or the violations resulted from a single systemic problem or cause that has been corrected," those violations should be "batched." Sanction Guidelines, General Principles, section 4.

As explained above and also in his Answer, Mr. Blake had no reason to think that he was engaging in securities trading. The entities being invested in provided written statements to him that the investments were not securities; his broker-dealers were told, every year, of his actions, yet never told him to stop or ever told him that he was trading securities; and his annual in-person audits always came up clean. As a result, "the violative conduct was unintentional."

Further, all of Mr. Blake's alleged violations arose from the same single activity: office-park development investments made through Longest Drive. And since Longest Drive is no longer making any new investments, that single activity has essentially been "corrected."

ACC000120
FILE #8451

BuchalterNemer

Helen G. Barnhill, Esq.
May 28, 2013
Page 3

Mr. Blake's actions therefore fit squarely within the Sanction Guidelines' rubric for batching, and as a result, Mr. Blake's actions through Longest Drive should be treated as a single violation.

The Sanction Guidelines further state that "[a]djudicators should consider a respondent's ill-gotten gain in determining an appropriate remedy." Sanction Guidelines, General Principles, section 6 (heading").

Here, Mr. Blake did not receive *any* gain, much less any "ill-gotten" gain. He was not compensated for anything he did through or for Longest Drive. Nor did he take or receive a commission from any of the investors in Longest Drive.

Any gain or loss that Mr. Blake realized was the same as that of any other investor, because he personally invested in each of the projects as well. In other words, the opportunities that he told friends and family about were only those that he himself also invested in. Since the Sanction Guidelines mandate that a respondent's "ill-gotten gain" be considered in the determination of a sanction, Mr. Blake's *lack of financial gain* should definitely be a factor in assessing any sanction as well. And since Mr. Blake did not *have* financial gain, any sanction should be less severe.

Regarding the amount of a monetary sanction, the Sanction Guidelines state that "adjudicators are *required* to consider ability to pay in connection with the imposition, reduction or waiver of any fine or restitution." Here, Mr. Blake has been unemployed, and thus without any employment income at all, since April 1. His "ability to pay" is therefore nearly non-existent, since he has virtually no money coming in. And since his lack of income is "required" to be considered as a factor, any monetary sanction should necessarily be relatively low, to reflect the fact that Mr. Blake is rapidly exhausting his financial resources.

Concerning the particular rules that Mr. Blake is alleged to have violated, only two of them, FINRA Rule 2010 and NASD Rule 3040, are specifically mentioned in the Sanction Guidelines. And most of the factors listed with regard to those Rules do not apply to Mr. Blake's situation.

Prior to discussing specific factors, though, it must be noted that NASD Rule 3040 relates to "private securities transactions," and as stated above and in his Answer, Mr. Blake had no reason to believe that his activities with Longest Drive constituted "private securities transactions."

As to some of the specific factors identified in the Sanction Guidelines, Mr. Blake only brought eight investors to Longest Drive, six individuals and two couples.¹ Thus, the number of people involved was not large.

¹ Steve Bernstein; Dan Gallagher; Larry Hampton; Dan and Kathy Hinsley; Doug and Kira Pippert; Pam Pont; Jack Saunders; and Roger Wooley.

BuchalterNemer

Helen G. Barnhill, Esq.

May 28, 2013

Page 4

The "products" that Longest Drive sold, i.e., the investments, have not been found to involve a violation of federal or state securities laws. Neither have they been found to involve a violation of SRO Rules. Thus, that factor is inapplicable to Mr. Blake's situation.

Nor did Mr. Blake or Longest Drive have a proprietary or beneficial interest in the transactions they conducted. Neither Mr. Blake nor Longest Drive took or received any type of commission for the investments. Mr. Blake and Longest Drive were simply conduits for the investors' money: the amount Mr. Blake and Longest Drive received was the exact amount that was invested. No commission or fees were taken out or charged.

Nor did Mr. Blake ever attempt to create the impression that any of his broker-dealers, AXA, Carillon, or Ameritas, were involved in Longest Drive's activities. He always fully disclosed to investors that Longest Drive was separate from the work he was doing for his broker-dealers, that the broker-dealers were not involved, and that he was not charging the investors any kind of commission.

The investments conducted through Longest Drive did not cause injury to the investing public because each investor was provided with a prospectus detailing the risk, including the risk that the entire investment could be lost. Further, each investor made the investment decision on his or her own. Mr. Blake simply advised them of the opportunity. Additionally, each investor controlled the amount of his or her investment; none of the people that Mr. Blake told of the investment opportunity was required to invest more than they were comfortable with, or invest anything at all for that matter.

Mr. Blake also provided his broker-dealers with repeated written documentation of Longest Drive's activities, on his yearly Outside Business Activities forms.

Nor did Mr. Blake ever engage in activities, including Longest Drive activities, after his broker-dealer instructed him not to. Indeed, neither of Mr. Blake's broker-dealers *ever* told him to stop his activities with Longest Drive. And definitely neither of them told Mr. Blake that what Longest Drive was doing constituted securities transactions.

And Mr. Blake never recruited other registered individuals to sell Longest Drive investments.

Finally, Mr. Blake never misled either of his broker-dealers about the existence of his Longest Drive activities. He disclosed Longest Drive, and what it was doing, every year on his Outside Business Activities forms.

ACC000122
FILE #8451

BN 14075993v1

BuchalterNemer

Helen G. Barnhill, Esq.

May 28, 2013

Page 5

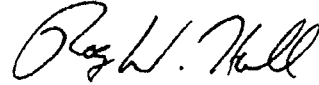
In light of all of the foregoing, Mr. Blake believes that a sanction of suspension for 60 days, beginning retroactively from April 1, as well as a monetary fine of \$4,999, is appropriate.

Thank you for your consideration, Ms. Barnhill, and I look forward to hearing back from you soon.

Sincerely,

BUCHALTER NEMER
A Professional Corporation

By



Roger W. Hall

RWH:jkg

cc: Mr. Michael Blake (*via e-mail only*)

FINRA
COMPLAINT

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
NOTICE OF COMPLAINT**

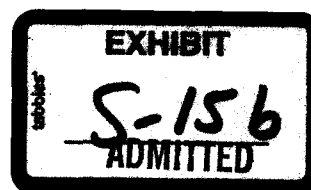
Disciplinary Proceeding No. 20100217105-01
Date: March 21, 2013

TO: Michael J. Blake
c/o Roger W. Hall, Esq.
BuchalterNemer
16435 North Scottsdale Road, Suite 440
Scottsdale, AZ 85254-1754

FROM: FINRA District No. 3 - Denver
Department of Enforcement
4600 S. Syracuse Street, Suite 1400
Denver, CO 80237

You are notified that a Complaint has been issued by the Department of Enforcement, a copy of which is attached, alleging that you have violated certain FINRA Rules, NASD Rules, NYSE Rules, Municipal Securities Rulemaking Board Rules and/or provisions of the federal securities laws.

All individual Respondents named in this proceeding are reminded of the requirement to update immediately their Uniform Application for Securities Industry Registration or Transfer (Form U4) upon receipt of this Notice of Complaint to reflect that they have been named a Respondent in this Complaint. Any firm named in this proceeding is reminded of the requirement to update immediately its Uniform Application for Broker-Dealer Registration (Form BD) upon receipt of this Notice of Complaint to reflect that it has been named a Respondent in this Complaint. In addition, you are required during the pendency of this proceeding to notify immediately this office and the Office of Hearing Officers, in writing, of any change in your address.



ACC000140
FILE #8451

ANSWER: Pursuant to FINRA Rule 9215 of FINRA's Code of Procedure, you are required within 28 days after service of this Complaint upon you, by no later than April 17, 2013, to answer this Complaint, in the manner and form described by FINRA Rule 9215, and to serve your Answer to the Complaint on all other parties pursuant to FINRA Rule 9133. Service of your Answer to the Department of Enforcement should be made to Helen Barnhill, Senior Regional Counsel, at the address referenced above. At the time of such service upon all parties, you are also required to file the signed original and three copies of your Answer with the Office of Hearing Officers pursuant to FINRA Rules 9135, 9136, and 9137. Filing of your Answer with the Office of Hearing Officers should be directed to the Office of Hearing Officers, FINRA, 1735 K Street, N.W., 2nd Floor, Washington, D.C. 20006, telephone (202) 728-8008, or you may file your Answer electronically: OHOCasFilings@finra.org. Papers are deemed timely filed with the Office of Hearing Officers if received by the Office of Hearing Officers within the specified time period.

The Answer must admit, deny or state that you do not have or are unable to obtain sufficient information to admit or deny each allegation in the Complaint. Any affirmative defense must be stated in the Answer. Pursuant to FINRA Rule 9215(c), if you file a motion for a more definite statement, it must accompany your Answer.

Pursuant to FINRA Rule 9221, your Answer must specifically state whether you request a hearing on the allegations of the Complaint or whether you waive a hearing. The Office of Hearing Officers will later notify you of the hearing date and location. If you waive a hearing, a hearing may nevertheless be ordered pursuant to FINRA Rule 9221(b) or (c). If no hearing is

ordered, the Office of Hearing Officers will notify you concerning your opportunity to submit documentary evidence for consideration.

If the Complaint alleges at least one cause of action involving a violation of a statute or rule described in FINRA Rule 9120(u) relating to the quotation of securities, execution of transactions, reporting of transactions or other specified trading practice rules, you may propose that the Chief Hearing Officer select one of the panelists for your hearing from the Market Regulation Committee.

INSPECTION AND COPYING OF DOCUMENTS IN POSSESSION OF STAFF: You are hereby advised that, pursuant to FINRA Rule 9251, unless otherwise provided, no later than 21 days after the filing date of your Answer (or, if there are multiple Respondents, not later than 21 days after the filing of the last timely Answer), the Department of Enforcement shall commence making available for inspection and copying by any Respondent, certain documents prepared or obtained by the Department of Enforcement in connection with the investigation leading to the institution of these proceedings. In that regard, contact Helen Barnhill to make arrangements. Please note that a Respondent shall not be given custody of the documents or be permitted to remove them from the offices of FINRA. However, a Respondent may obtain a photocopy of any documents made available for inspection; the Respondent shall pay the cost of any such copying of documents.

OFFER OF SETTLEMENT: Pursuant to FINRA Rule 9270, you may propose a written Offer of Settlement at any time. You may obtain the required format from the above-named staff

attorney. Discussions with the staff concerning possible settlement or the submission of an Offer do not relieve you of the obligation to timely file an Answer to the charges.

PRIMARY DISTRICT COMMITTEE: The Department of Enforcement has proposed District No. 3 as the Primary District Committee for this proceeding based on the following factors: Respondent Michael J. Blake is located in District No. 3 and the alleged violations occurred in that District. You may propose the same or another District as the Primary District Committee for this proceeding, with the filing of your Answer. The Office of Hearing Officers will designate, pursuant to FINRA Rule 9232(c), the Primary District Committee.

PROPOSED HEARING LOCATION: The Department of Enforcement has proposed Phoenix, Arizona, as the appropriate location for any hearing in this proceeding. Pursuant to FINRA Rule 9221, you may propose an appropriate location for any hearing, with the filing of your Answer. The assigned Hearing Officer will designate, pursuant to FINRA Rule 9221(d), the location of any hearing.

REPRESENTATION: Pursuant to FINRA Rule 9141, any Respondent may be represented by an attorney. Alternatively, an individual may appear on his own behalf; a member of a partnership may represent the entity; and a bona fide officer of a corporation, trust or association may represent the entity.

ACC000143
FILE #8451

NOTICE OF APPEARANCE: You are advised that the Department of Enforcement is represented in this matter by Helen Barnhill, Senior Regional Counsel, FINRA Department of Enforcement, 4600 S. Syracuse Street, Suite 1400, Denver, CO 80237, (303) 446-3100.

GOVERNING RULES: You are directed to FINRA Rule 9000, et seq., <http://finra.complinet.com>, for additional pertinent rules governing these proceedings.

David Utensky for Helen Barnhill
Helen Barnhill
Senior Regional Counsel
FINRA Department of Enforcement

Enclosure: Complaint

ACC000144
FILE #8451

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. Respondent Michael James Blake, acting outside the course and scope of his employment with his employing member firms, participated in private securities transactions involving the investment of more than \$3.2 million by approximately twenty-eight investors in three investment contracts, without providing prior written notice to his firms of his proposed roles in the transactions. As a result of the foregoing, the Respondent violated NASD Conduct Rules 3040 and 2110.
2. On numerous forms, Respondent misled his employing member firms regarding his involvement in the foregoing private securities transactions and his participation in the outside business activity through which the transactions were effected, in violation of NASD Conduct Rule 2110 and FINRA Rule 2010.

ACC000145
FILE #8451

3. Finally, Respondent failed to disclose a separate, related outside business activity to his employing member firm, in violation of NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010.

RESPONDENT AND JURISDICTION

4. The Respondent entered the securities industry in or about December 1989 as an associated person of ELA, a FINRA member. He became registered with that firm (which had since changed its name to AX) as an Investment Company and Variable Contracts Products Representative and Principal in February 1990 and January 1996, respectively, as a General Securities Representative in June 1999 and as a General Securities Principal in December 1999.
5. On November 1, 2002, the Respondent became registered with FINRA member firm Carillon Investments, Inc. ("Carillon") in each of the foregoing capacities. Respondent's association with Carillon ceased on or about June, 2006 when these same registrations were transferred to Ameritas Investment Corporation ("Ameritas").
6. The Respondent is currently registered with Ameritas in those same capacities.
7. Under Article V, Section 2 of FINRA's By-Laws, FINRA has jurisdiction to file this action because the Respondent is currently registered and associated with Ameritas, a FINRA member; and the Complaint charges him with misconduct committed while he was registered or associated with FINRA member firms.

FIRST CAUSE OF ACTION
Selling Away (Private Securities Transactions)
(NASD Conduct Rules 3040 and 2110)

8. The Department realleges and incorporates by reference paragraphs 1 through 7 above.
9. In or about April 2002, the Respondent formed an LLC so that he and three colleagues could pool funds to invest in commercial real estate projects.
10. In October 2002, the Respondent notified Carillon of the existence of the LLC in a letter dated October 16, 2002 and an Outside Business Activity Questionnaire ("OBA Form") which he submitted on or about October 21, 2002. In the two documents, Respondent disclosed the business as a "private investment" in commercial real estate development by him and four friends, two of whom were former clients of ELA. He further disclosed that he would not spend any time on the business, in which he had a twenty-percent interest and that he received no compensation from the business. Respondent further represented that, after the LLC selected a particular real estate project, its members would each write a check to the LLC and Respondent, who had signatory authority for the LLC's bank account, would in turn write a check to the real estate development project on behalf of the LLC. The outside business activity, as disclosed, was approved on October 16, 2002 by Carillon's Chief Compliance Officer.
11. By the summer of 2007, the LLC's size and scope had expanded beyond the several individuals who initially formed the entity, in that approximately twenty-five individuals, who were not members of the LLC, had provided funds to the LLC to make investments in real estate development projects through the LLC. None of

these individuals signed a membership agreement with the LLC, and the LLC's Operating Agreement was never amended to reflect the addition of new members.

12. Between approximately February 2006 and June 2007, the LLC invested approximately \$3,200,000 in real estate properties being developed by GC, a real estate development enterprise organized as a limited liability company. The invested funds were provided by twenty-eight investors as follows: six persons invested \$250,000 in Development 1 between August and November 2006; three persons invested \$200,000 in Development 2 in October and November 2006 and twenty-three persons invested approximately \$2,755,000 in Development 3 between February 2006 and June 2007 (collectively, the "LLC Investments."). Twelve of these investors were customers of Carillon and/or Ameritas at the time of their respective investments. The Respondent personally invested in each of these three projects.
13. Respondent participated in the sale of the LLC Investments by soliciting investors, receiving, processing and forwarding the funds that were invested, providing the investors with documentation evidencing their investments, functioning as the point of contact between the investors and GC, apprising the investors of the status of the LLC Investments and causing the preparation of Schedule K1 forms.
14. The Respondent completed Ameritas Annual Compliance Questionnaires ("Questionnaires") on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires, the Respondent answered "yes" when asked if he understood he was not permitted to commingle his funds with a client's funds and that he was not to accept a client's check made payable to him or any entity or

person associated with him for a securities transaction. Even after answering "yes" to these questions on September 18, 2006, the Respondent continued to accept checks made payable to the LLC and in October and November 2006, he commingled his funds with client's funds in the LLC's bank account.

15. Each investment of funds in the LLC was the purchase of a security in the form of an investment contract. The LLC was a common enterprise in which investor funds were pooled. The investors' returns were to be derived wholly from the efforts of the LLC and GC, the entity in which their pooled funds would be invested by the LLC.
16. Respondent effected the LLC Investments outside the regular course and scope of his employment with Carillon and Ameritas. Therefore, the transactions are private securities transactions.
17. The Respondent never advised Carillon or Ameritas orally or in writing that he was participating in the private securities transactions described above. To the contrary, as set forth below, between 2006 and 2008, he indicated each year, in annual compliance questionnaires, that he had not engaged in private securities transactions.
18. GC filed for bankruptcy in 2009. To date, none of the investors in the LLC Investments have received a return of their principal or any interest or other payments.
19. As a result of the foregoing, the Respondent participated in private securities transactions without providing to Ameritas and Carillon prior written notice in the form required by NASD Conduct Rule 3040, as required by NASD Rule 3040(b). He therefore violated NASD Conduct Rules 3040 and 2110.

SECOND CAUSE OF ACTION
(Providing False Information to Member Firm Employer and Omitting to Correct
Inaccurate Information)
(NASD Rule 2110 and FINRA Rule 2010)

20. The Department realleges and incorporates by reference paragraphs 1 through 19 above. As noted above, the Respondent completed Questionnaires on September 18, 2006, October 1, 2007, July 31, 2008 and June 28, 2009. In each of the Questionnaires he falsely answered "no" when asked if he had engaged in private securities transactions.
21. The Respondent did disclose the LLC as an outside business in OBA Forms on August 31, 2003, September 8, 2004, March 14, 2005 and October 1, 2007.
22. However, the Respondent did not disclose the LLC as an outside business in OBA Forms which he completed on September 18, 2006 and July 31, 2008, inquiring into all of his outside business activities.
23. The size, scope and activity of the LLC changed significantly after Respondent's initial disclosure in 2002 that he and four friends had formed an entity to invest in commercial real estate. By 2007, the LLC had become an investment vehicle for approximately 25 other individuals to pool funds for investments in various real estate development projects and Respondent was substantially involved in this expanded business. These changes caused the initial disclosure to become inaccurate and, given the nature and extent of its activities, misleading. Respondent did not amend or update the outside business disclosure concerning the LLC at any time.
24. By providing false and incomplete information on compliance questionnaires and by failing to update and correct his outside business disclosure, as described above,

Respondent misled Ameritas. By misleading the firm, the Respondent deprived his employer of information that could have resulted in the detection of his participation in private securities transactions, notwithstanding his failure to make an affirmative disclosure in the Questionnaires.

25. By providing false and misleading information to Ameritas from September 2006 through December 14, 2008, Respondent violated NASD Conduct Rule 2110. By providing false and misleading information to Ameritas from December 15, 2008 through June 28, 2009, Respondent violated FINRA Rule 2010.

THIRD CAUSE OF ACTION

Outside Business Activities—Failure to Comply with Rule Requirements
(NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010)

26. The Department realleges and incorporates by reference paragraphs 1 through 25 above.
27. Respondent caused a second limited liability company to be created and to be incorporated in Arizona on or about November 29, 2006 ("LLC II"). Respondent was the Managing Member of LLC II, owning twenty percent or more of the business. LLC II was set up so that any investments made after Development 3 would be made through that entity instead of the first LLC. Respondent closed LLC II in or about November 2010.
28. The Respondent failed to provide Ameritas with any notice at all, including written notice, of LLC II.
29. As to conduct occurring from November 29, 2006 through December 14, 2008, the Respondent's failure to provide prompt written notice of LLC II to Ameritas violated

NASD Conduct Rules 3030 and 2110. As to conduct occurring from December 15, 2008 through November 30, 2010, the Respondent's failure to provide prior written notice of LLC II to Ameritas violated NASD Conduct Rule 3030 and FINRA Rule 2010.

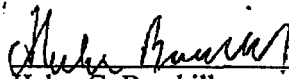
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: March 18, 2013



Helen G. Barnhill
Senior Regional Counsel
Jacqueline D. Whelan
Regional Chief Counsel
FINRA Department of Enforcement
4600 S. Syracuse St., Suite 1400
Phone: 303 446-3111
Facsimile: 303 446-3150
helen.barnhill@finra.org

Index of Initials

ELA	The Equitable Life Assurance Society of the United States
AX	AXA Advisors, LLC
LLC	The Longest Drive LLC
GC	Grace Communities
LLC II	The Longest Drive II, LLC
Development 1	Deer Park Town Center
Development 2	Romeoville Office Investors, LLC
Development 3	Burr Ridge Office Investors, LLC

**FINRA
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Michael James Blake,
(CRD No. 2022161),

Respondent.


Disciplinary Proceeding
No. 20100217105-01

Hearing Officer:

CERTIFICATE OF SERVICE

Date: March 21, 2013

I hereby certify that on this 21st day of March, 2013, I caused copies of the foregoing Complaint, Notice of Complaint and Index of Initials, to be sent by regular U.S. Postal Service first class mail, and by certified mail, return receipt requested, to Respondent Blake in care of his attorney, Roger W. Hall, at his address of 16435 North Scottsdale Road, Suite 440, Scottsdale, Arizona 85254-1754. I further certify that on the same date I caused copies of the aforementioned documents to be sent via electronic mail and U.S. Postal Service first class mail to FINRA Office of Hearing Officers, 1801 K Street N.W., Washington, DC 20006.


Jenée Ward
Paralegal
FINRA District 3 - Seattle
601 Union Street, Suite 1616
Seattle, WA 98101
Phone: (206) 624-0790; Fax (206) 623-2518
Jenee.ward@finra.org

ACC000154
FILE #8451

FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING
No. 2010021710501

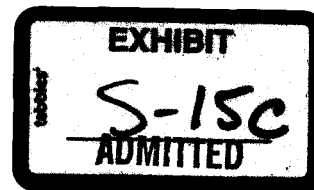
ANSWER OF
MICHAEL JAMES BLAKE

Respondent Michael James Blake, answering the Complaint, hereby admits, denies, and asserts as follows:

PRELIMINARY STATEMENT

Every year since 2002, the inception of the LLC described in the Complaint (Longest Drive, LLC), Mr. Blake advised his broker-dealer, through his outside-business-activity reports, of the existence of Longest Drive, the activities that Longest Drive was engaging in, and that he was receiving absolutely no compensation for his activities in Longest Drive.

At no time did any of Mr. Blake's broker-dealers *ever* advise Mr. Blake that the real-estate investments in question constituted dealing in securities. The fact that he told his broker-dealers what he was doing and they never told him that he was dealing in securities was *the* primary reason why Mr. Blake did not think that those real-estate investments constituted dealing in securities. Had any of his broker-dealers ever raised a red flag, or even *hinted* that his activities constituted dealing in securities, he certainly would have taken actions different from those he actually took.



Moreover, each and every investor was granted a membership interest in Longest Drive and provided with subscription agreements for their investments. Each of those subscription agreements contained language stating that the entities being invested in "have informed me [Longest Drive] that the Interest [i.e., the investment] will not [sic] be registered pursuant to the Securities Act of 1933, as amended (the 'Act'), or under Arizona or any other state's securities laws based upon your [the entity being invested in's] belief that the Interests are not 'securities' as defined under the Act, or even if so defined, the sale to me [Longest Drive] qualifies for an exemption from the registration requirements of said federal and state securities laws." Copies of each of those subscription agreements are attached here to as Exhibit A.

Since none of his broker-dealers ever advised Mr. Blake that the real-estate investments were securities, and since the entities being invested in each stated, *in writing*, that the investments were not securities, Mr. Blake had no reason whatsoever to believe that those investments were securities.

Further, the nature of Longest Drive and what Mr. Blake did with Longest Drive never changed. In 2002, he disclosed to his broker-dealer at the time, Carillon Investments, Inc., that he had formed Longest Drive with four colleagues, to invest in commercial real-estate projects. Although in subsequent years Longest Drive grew in size, the nature of its activities never changed. It was still a way for individuals to invest in commercial real-estate projects. Since the nature and activities of Longest Drive never changed, Mr. Blake had no reason to believe that a different disclosure was necessary merely because the membership of Longest Drive had grown.

Perhaps most importantly, Mr. Blake never received any compensation for his activities with Longest Drive.

Mr. Blake was not compensated when he brought new investors to Longest Drive. He was not compensated when those investors invested in the different real-estate projects. And he was not compensated by Longest Drive for the work he did on behalf of Longest Drive. Neither he nor Longest Drive received any commission, handling fees, or profited in any way from the real-estate projects, other than any return on investment from the projects themselves.

And Mr. Blake had investments in Longest Drive's real-estate projects just like the other investors did. So the investment made money, he and the other investors made money. So if the investments lost money, he, along with the other investors, did too.

Regarding the second LLC, Longest Drive II (referred to as "LLC II" in the Complaint), that entity never made any investments, and as such was not required to be disclosed as an outside business activity.

SUMMARY

1. Mr. Blake denies the allegations contained in the paragraph 1 of the Complaint. Mr. Blake affirmatively asserts that he only brought \$1.7 million of money into Longest Drive for investment, not the \$3.2 million alleged in paragraph 1.

Mr. Blake further affirmatively asserts that he did not violate NASD Conduct Rule 3040 because he did not engage in any "private securities transaction[s]." Transactions "for which no associated person receives selling compensation" are specifically excepted from the definition of "private securities transaction." See NASD Conduct Rule 3040(e)(1). And Mr. Blake did not receive any compensation whatsoever for his activities with Longest Drive.

Mr. Blake additionally affirmatively asserts that he did not violate NASD Conduct Rule 2110. Sub-rule 2110-1 is "reserved," and contains no actual text. There is no sub-rule 2110-2. And sub-rule 2110-3 concerns "front running," which is not alleged anywhere in the Complaint.

2. Mr. Blake denies the allegations contained in paragraph 2 of the Complaint. Indeed, Mr. Blake affirmatively asserts that what he did with Longest Drive in 2002 and disclosed to Carillon as an outside business activity was no different than what he did with Longest Drive in subsequent years. Neither Carillon nor its successor, Ameritas Investment Corporation, ever notified Mr. Blake that his activities with Longest Drive were improper in any way or that the investments constituted securities.

Mr. Blake further affirmatively asserts, for the reasons set forth in paragraph 1, above, that he did not violate NASD Conduct Rule 2110, because that rule addresses front running, which is not alleged in the Complaint.

Mr. Blake additionally affirmatively asserts that he did not violate FINRA Rule 2010. Mr. Blake at all times followed the disclosure requirements of FINRA and his broker dealers and "observe[d] high standards of commercial honor and equitable principles of trade."

3. Mr. Blake denies the allegations contained in paragraph 3 of the Complaint. Mr. Blake affirmatively asserts that he and his wife's trust was the only member of Longest Drive II. Further, Longest Drive II had no checkbook or checking account, and was not formed to or ever made any investments. As such, Mr. Blake was not required to disclose Longest Drive II to his broker-dealer.

Mr. Blake further affirmatively asserts that he did not violate NASD Conduct Rule 3030. As an initial matter, that Rule is no longer applicable as it has been superseded. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270—which is not alleged—Mr. Blake did not violate that rule either. FINRA Rule 3270 states that with regard to an outside business activity, a person may not be "compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member." Here, Mr. Blake was not compensated—but he provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers. Moreover, the broker-dealers

never raised any red flags as to those outside business activities, or advised him that those activities were, or could be considered, private securities transactions.

Mr. Blake additionally affirmatively asserts that for the reasons set forth in paragraph 1, above, he did not violate NASD Conduct Rule 2110 because that rule addresses front running, which is not alleged in the Complaint.

Mr. Blake also affirmatively asserts, that he did not violate FINRA Rule 2010. Mr. Blake at all times followed the disclosure requirements of FINRA and his broker dealers, and "observe[d] high standards of commercial honor and equitable principles of trade."

RESPONDENT AND JURISDICTION

4. Mr. Blake admits the allegations contained in paragraph 4 of the Complaint.

5. Mr. Blake admits the allegations contained in paragraph 5 of the Complaint.

6. Mr. Blake denies the allegations contained in paragraph 6 of the Complaint. A copy of Mr. Blake's resignation letter from Ameritas is attached hereto as Exhibit B.

7. Mr. Blake denies the allegations contained in paragraph 7 of the Complaint. As set forth in paragraph 6, Mr. Blake has resigned from Ameritas.

FIRST CAUSE OF ACTION Selling Away (Private Securities Transactions) (NASD Conduct Rules 3040 and 2110)

8. Mr. Blake incorporates by reference his responses to paragraphs 1-7 of the Complaint as if fully set forth herein.

9. Mr. Blake admits the allegations contained in paragraph 9 of the Complaint.

10. Mr. Blake admits the allegations contained in the first sentence of paragraph 10 of the Complaint. Answering the second sentence, Mr. Blake admits that he formed Longest Drive with four friends. Mr. Blake affirmatively asserts that the full text of item 3 from the OBA Form in question is as follows: "Investment in commercial real estate development. Private investment." Mr. Blake admits that two of Longest Drive's original members were also clients of The Equitable Life Assurance Society of the United States. Mr. Blake denies any remaining allegations contained in the second sentence of paragraph 10. Answering the third sentence of paragraph 10, Mr. Blake asserts that item 11 of the OBA Form in question speaks for itself. Mr. Blake affirmatively asserts that his interest in Longest Drive's initial investment was 20%. Mr. Blake admits that he received no compensation from Longest Drive. Mr. Blake denies any remaining allegations contained in the third sentence of paragraph 10. Mr. Blake admits the allegations contained in the fourth and fifth sentences of paragraph 10.

11. Mr. Blake denies the allegations contained in the first sentence of paragraph 11 of the Complaint. Mr. Blake affirmatively asserts that the additional individuals referred to in paragraph 11 received Internal Revenue Service forms K-1 from Longest Drive, which indicates they were members of Longest Drive. Copies of those K-1s are in FINRA's possession. Answering the second sentence of paragraph 11, Mr. Blake admits that the individuals referred to in paragraph 11 were not given membership agreements for Longest Drive, but affirmatively asserts that each individual was provided with a copy of Longest Drive's Operating Agreement, operating agreements of the projects the individuals were investing in, and as mentioned above, received K-1s indicating membership income from Longest Drive.

12. Mr. Blake admits the allegations contained in paragraph 12 of the Complaint. Mr. Blake affirmatively asserts, however, that as set forth in paragraph 1 above, he only brought \$1.7 million of money into Longest Drive. The remaining \$1.5 million in investments was brought in by other members of Longest Drive.

13. Answering paragraph 13 of the Complaint, Mr. Blake denies that he ever engaged in "soliciting investments" for Longest Drive. Mr. Blake further denies that he engaged in "apprising the investors of the status of the LLC investments." Mr. Blake merely passed along information that Longest Drive received from Grace Communities, which itself was apprising its own investors of the status of the various developments. Mr. Blake admits the remaining allegations contained in paragraph 13. Mr. Blake further affirmatively asserts, however, that the allegation in paragraph 13 that he caused "the preparation of Schedule K1 forms" contradicts the assertion in paragraph 11 that the additional individuals referred to in paragraph 11 "were not members of the LLC."

14. Mr. Blake admits the allegations contained in the first sentence of paragraph 14 of the Complaint. Answering the second sentence of paragraph 14, as detailed in the Preliminary Statement to this Answer, Mr. Blake never believed, and had no reason to believe, that anything Longest Drive was doing constituted a "securities transaction." Every year, Mr. Blake disclosed to Carillon, and later Ameritas, that the activities Longest Drive was engaged in, his involvement in Longest Drive, and the fact that he received no compensation for Longest Drive's activities or his involvement in Longest Drive. And every year, Carillon, and later Ameritas, approved his involvement with Longest Drive. Neither of those broker-dealers ever stated, or even hinted, that Mr. Blake was, or could be perceived to be, engaging in "securities transactions." Moreover, the activities of Longest Drive never changed after those activities were initially approved by Carillon in 2002. Because of that, Mr. Blake believed that he was answering honestly and accurately on his Questionnaires when he stated that he was not

commingling his funds with a client's funds "for a securities transaction." Mr. Blake denies any further allegations or implications contained in paragraph 14.

15. Mr. Blake denies the allegations contained in the first sentence of paragraph 15 of the Complaint. Mr. Blake affirmatively asserts, as repeatedly stated above, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities. Mr. Blake admits the remaining allegations contained in paragraph 15.

16. Mr. Blake admits the allegations contained in the first sentence of paragraph 16 of the Complaint, but affirmatively asserts that he "effected the LLC investments" under the written approval of his OBA Forms, first by Carillon and then by Ameritas. Mr. Blake denies the allegations contained in the second sentence of paragraph 16.

17. Mr. Blake denies the allegations contained in paragraph 17 of the Complaint. Mr. Blake affirmatively asserts, again, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities.

18. Mr. Blake admits the allegations contained in paragraph 18 of the Complaint, but affirmatively asserts that the Grace Communities projects are still active, and so the potential for additional returns on investments still exists.

19. Mr. Blake denies the allegations contained in paragraph 19 of the Complaint. Mr. Blake affirmatively asserts, yet again, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities.

Mr. Blake further affirmatively asserts that he did not violate NASD Conduct Rule 3030. That Rule is no longer applicable and has been superseded. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270—which is not

alleged—Mr. Blake did not violate that rule either. FINRA Rule 3270 states that with regard to outside business activities, a person may not be “compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member.” Here, Mr. Blake was not compensated—but he provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers. Further, his broker-dealers were never even hinted that Mr. Blake’s outside business activities might be in any way improper, or that those activities were, or could be considered, private securities transactions.

Mr. Blake additionally affirmatively asserts that for the reasons set forth in paragraph 1, above, he did not violate NASD Conduct Rule 2110 because that rule addresses front running, which is not alleged in the Complaint.

SECOND CAUSE OF ACTION
(Providing False Information to Member Firm Employer and Omitting to Correct
Inaccurate Information)
(NASD Rule 2110 and FINRA Rule 2010)

20. Answering the first sentence of paragraph 20 of the Complaint, Mr. Blake incorporates by reference his responses to paragraphs 1-20 of the Complaint as if fully set forth herein. Mr. Blake admits the allegations contained in the second sentence of paragraph 20, but affirmatively asserts, as set forth repeatedly above, that he did not believe, and had no reason to believe, that the real-estate investments made by Longest Drive were securities. Mr. Blake denies any remaining allegations or implications contained in paragraph 20.

21. Mr. Blake admits the allegations contained in paragraph 21 of the Complaint.

22. Mr. Blake denies the allegations contained in paragraph 22 of the Complaint. Although he does not have access to the RegEd system to get copies of his 2006 and 2008 OBA Forms, he believes that Ameritas has such access. There is no logical reason why Mr. Blake would disclose Longest Drive in 2002 through 2005, stop for a year in 2006, disclose again in 2007, and then stop again in 2008. As Mr. Blake testified at his FINRA interview on January 19, 2012, and as this office explained in its February 14, 2012 letter to FINRA, Mr. Blake completed two sets of forms through the RegEd system each year: a compliance form and an outside-business-activities form. It may be the case that regarding Mr. Blake, Ameritas has provided the compliance forms but not the outside business activity forms for 2006 and 2008. Moreover, Mr. Blake's broker-dealers never inquired about or asked for missing OBA Forms for 2006 or 2008, which indicates that the broker-dealers in fact already had those forms.

23. Mr. Blake denies the allegations contained in the first sentence of paragraph 23 of the Complaint. Mr. Blake affirmatively asserts that neither the "scope" nor "activity" of Longest Drive changed at all from its inception in 2002, much less changed "significantly." Answering the second sentence of paragraph 23, Mr. Blake admits that by 2007, Longest Drive had become an investment vehicle for approximately 25 other individuals. Mr. Blake denies any remaining allegations contained in the second sentence of paragraph 23. Mr. Blake affirmatively asserts that he was not "substantially" involved in Longest Drive, or that Longest Drive was an "expanded business." Mr. Blake denies any remaining allegations contained in paragraph 23 of the Complaint.

24. Mr. Blake denies the allegations contained in paragraph 24 of the Complaint.

25. Mr. Blake denies the allegations contained in paragraph 25 of the Complaint. Mr. Blake affirmatively asserts that for the reasons set forth in paragraph 1, above, he did not violate NASD Conduct Rule 2110, because that rule addresses front

running, which is not alleged in the Complaint. Mr. Blake additionally affirmatively asserts that he did not violate FINRA Rule 2010. All information provided on his OBA Forms was completely accurate, and Mr. Blake at all times followed the disclosure requirements of FINRA as well as his broker dealers, and "observe[d] high standards of commercial honor and equitable principles of trade."

THIRD CAUSE OF ACTION

(Outside Business Activities—Failure to Comply with Rule Requirements (NASD Conduct Rules 3030 and 2110 and FINRA Rule 2010))

26. Mr. Blake incorporates by reference his responses to paragraphs 1-25 of the Complaint as if fully set forth herein.

27. Upon information and belief, Mr. Blake admits the allegations contained in the first sentence of paragraph 27 of the Complaint. Answering the second sentence of paragraph 27, Mr. Blake admits that he was the manager of Longest Drive II, but denies that he was the "managing member." Mr. Blake denies that he owned twenty percent or more of Longest Drive II. Mr. Blake affirmatively asserts that the only member of Longest Drive II was "The Michael J. Blake and Janice L. Blake Trust." Mr. Blake denies any remaining allegations contained in the second sentence of paragraph 27. Mr. Blake denies the allegations contained in the third sentence of paragraph 27. Mr. Blake affirmatively asserts that Longest Drive II was set up to handle personal matters for the Blakes. Mr. Blake admits the allegations contained in the fourth sentence of paragraph 27. Mr. Blake denies any remaining allegations contained in paragraph 27.

28. Answering paragraph 28 of the Complaint, Mr. Blake admits that he did not provide Ameritas with any notice concerning Longest Drive II. Mr. Blake denies that any notice to Ameritas was necessary, however, as Longest Drive II was not formed to

make investments, never made any investments, and in fact was set up simply to handle personal matters for the Blakes. Mr. Blake denies any remaining allegations contained in paragraph 28.

29. Mr. Blake denies the allegations contained in paragraph 29 of the Complaint. Mr. Blake affirmatively asserts that he did not violate NASD Conduct Rule 3030. That Rule is no longer applicable and has been superseded. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270—which is not alleged—Mr. Blake did not violate that rule either. FINRA Rule 3270 states that with regard to outside business activities, a person may not be “compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member.” Here, Mr. Blake was not compensated—but he provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers. Moreover, none of his broker-dealers ever advised him that his outside business activities were, or could be considered, private securities transactions.

Mr. Blake additionally affirmatively asserts that he did not violate FINRA Rule 2010. Since Longest Drive II was not formed to and never made any investments, Mr. Blake was not required to disclose it. Moreover, Mr. Blake at all times followed the disclosure requirements of FINRA as well as his broker dealers, and “observe[d] high standards of commercial honor and equitable principles of trade.”

GENERAL DENIAL

Any allegation in the Complaint not specifically admitted in this Answer is hereby denied.

REQUEST FOR HEARING

Pursuant to FINRA Rule 9221(a)(1), Mr. Blake hereby requests a hearing.

AFFIRMATIVE DEFENSES

Mr. Blake hereby alleges the following affirmative defenses:

1. The Complaint fails to state a claim upon which relief can be granted;
2. All of Mr. Blake's outside business activities with Longest Drive were approved, in writing, by each of his broker-dealers.
3. Mr. Blake was not engaged in private securities transactions because he never received any compensation, or had a reasonable expectation of compensation, as a result of his activities with Longest Drive.
4. If Mr. Blake was engaged in private securities transactions, his broker-dealers had an obligation to advise him of such, and if they failed to do so, the responsibility for Blake's engagement in securities transactions is with the broker-dealers and not Blake.
5. Mr. Blake never received any commissions, fees, or any other type of compensation whatsoever regarding his involvement with Longest Drive.
6. Mr. Blake did not violate NASD Conduct Rule 3040 because he did not engage in any "private securities transaction[s]" as that term is defined in NASD Conduct Rule 3040(e)(1), because he did not receive any compensation, or have a reasonable expectation of compensation, for his actions in Longest Drive.
7. Mr. Blake did not violate NASD Conduct Rule 2110 because the only provision of that rule which exists is Rule 2110-3, and that rule concerns front running, which is not alleged in the Complaint.

8. Mr. Blake did not violate FINRA Rule 2010 because Mr. Blake at all times followed the disclosure requirements of FINRA and his broker-dealers, because all of his OBA-Form disclosures were completely accurate, because he was not required to disclose Longest Drive II since it was not formed to and did not engage in any investments, and because at all times Mr. Blake "observe[d] high standards of commercial honor and equitable principles of trade."

9. Mr. Blake did not violate NASD Conduct Rule 3030 because that rule has been superseded and no longer exists. To the extent the Complaint purports to claim that Mr. Blake violated FINRA Rule 3270, that has not been alleged. Moreover, FINRA Rule 3270 states that as to outside business activities, a person "may not be compensated, or have the reasonable expectation of compensation . . . unless he or she has provided prior written notice to the member, in such form as specified by the member." Mr. Blake was not compensated—but provided written notice to his broker-dealers anyway—on their specified electronic forms. And his outside business activities were approved, every time, by his broker-dealers.

RESERVATION OF RIGHTS REGARDING OTHER AFFIRMATIVE DEFENSES

Mr. Blake hereby reserves the right to assert additional affirmative defenses should future discovery, including but not limited to the inspection of documents provided by FINRA Rule 9251, yield a basis for such affirmative defenses.


RELIEF REQUESTED

WHEREFORE, having fully answered the Complaint, Blake respectfully requests:

1. That no relief be granted on the Complaint;
2. That a decision be made in favor of Blake;
3. That Blake recover his attorneys' fees, costs, and expenses to the extent permitted by law, FINRA Rules, and NASD rules.
4. Such other and further relief as the Panel may deem just and proper.

DATED: April 17, 2013

BUCHALTER NEMER

By: 
Roger W. Hall
16435 N. Scottsdale Road, Suite 440
Scottsdale, Arizona 85254
Attorneys for Respondent
Michael James Blake

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Michael James Blake (CRD No. 2022161),

Respondent.

DISCIPLINARY PROCEEDING

No. 2010021710501

CERTIFICATE OF SERVICE

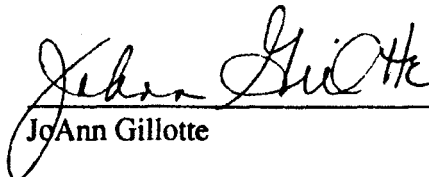
I hereby certify on the 17th day of April, 2012, I caused the original and three (3) copies of the foregoing Complaint, to be sent electronically and via FedEx, addressed as follows:

Office of Hearing Officers, FINRA
1735 K Street, N.W., 2nd Floor
Washington, D.C. 20006
OHOCasFilings@finra.org.

-and-

Helen Barnhill, Esq.
Senior Regional Counsel
Jacqueline D. Whelan, Esq.
Regional Chief Counsel
FINRA District No. 3 - Denver
Department of Enforcement
4600 S. Syracuse Street, Suite 1400
Denver, CO 80237

Dated: April 17, 2013


JoAnn Gillotte

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FILE #8451

WELLS letter



Financial Industry Regulatory Authority

Via Facsimile Transmission and US First Class Mail
(480) 383-1602

November 21, 2012

Roger W. Hall, Esq.
Buchalter Nemer
16435 North Scottsdale Road, Suite 440
Scottsdale, Arizona 85254-1754

Re: Michael Blake, Examination Number 20100217105

Dear Mr. Hall:


On November 21, 2012, the staff advised you that it made a preliminary determination to recommend that disciplinary action be brought against your client, Michael Blake. During that conversation, the staff also advised you of the nature of the potential violations. Specifically, the staff made a preliminary determination that Mr. Blake engaged in undisclosed private securities transactions between approximately February 2006 and March 2007 totaling approximately \$3.2 million in the following Grace Community Properties: Burr Ridge, Romeoville and Deer Park, in violation of NASD Conduct Rules 3040 and 2110. In addition, Mr. Blake violated NASD Conduct Rules 3030 and 2110 by engaging in an undisclosed outside business activity. Finally, Mr. Blake violated FINRA Rule 2010 and NASD Rule 2110 by misleading his firm concerning his private securities transactions.

Please treat this letter as written notification that your client is the subject of an investigation for purposes of triggering an obligation on the part of your client to update his Form U4 (Uniform Application for Securities Industry Registration or Transfer) as he is currently registered.

Please also advise you that in the event your client wishes to file a "Wells" submission indicating why an action should not be brought against him for some or all of the proposed alleged violations, it is due by December 14th and must not exceed 35 pages. Wells submissions are *not* treated as settlement documents and any statements contained therein may be used against your client at, among other things, a FINRA disciplinary proceeding.

If you have any questions, please call me at (303) 446-3111.

Very truly yours,


Helen G. Barnhill
Senior Regional Counsel

cc: Director of Compliance
Ameritas Investment Corporation
Investor protection. Market integrity.

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FILE #8451

District 3A
4600 S. Syracuse St., Suite 1400
Denver, CO 80237-2719

t 303 446 3100
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www.finra.org



ACC000165
FILE #8451

WELLS LETTER
RESPONSE

BuchalterNemer
A Professional Law Corporation

16435 NORTH SCOTTSDALE ROAD, SUITE 440 SCOTTSDALE, ARIZONA 85254-1754
TELEPHONE (480) 383-1800 / FAX (480) 824-9400

Direct Dial Number: (480) 383-1845
Direct Facsimile Number: (480) 383-1602
E-Mail Address: rhall@buchalter.com

December 28, 2012

Via FedEx and E-Mail

Helen G. Barnhill, Esq.
Senior Regional Counsel
FINRA
4600 South Syracuse Street, Suite 1400
Denver, CO 80237

Re: Michael Blake, Examination No. 20100217105

Dear Ms. Barnhill:

This will constitute Mr. Blake's response to the "Wells" notification sent on November 21, 2012.

That letter indicates that FINRA staff has made a preliminary determination that Mr. Blake "engaged in undisclosed private securities transactions between approximately February 2012 and March 2017 totaling approximately \$3.2 million"

There are several inaccurate statements in that sentence.

First, Mr. Blake had no reason to believe that the real-estate investments in question were securities.

For each of those investments, Mr. Blake's company, Longest Drive, LLC was provided with a Subscription and Counterpart Signature Page for Membership Interests. Those documents were prepared by the individual investment entities, and countersigned by Mr. Blake on behalf of Longest Drive. Each and every one of those subscription agreements contains language stating that the investment entities "have informed me [Longest Drive] that the Interest will not [sic] be registered pursuant to the Securities Act of 1933, as amended (the 'Act'), or under Arizona or any other state's securities laws based upon your belief that the Interests are not 'securities' as defined under the Act, or even if so defined, the sale to me [Longest Drive] qualifies for an exemption from the registration requirements of said federal and state securities laws." Copies of each of those subscription agreement letters are attached/enclosed for your convenience. (Copies of the Romeoville and Deer Park subscription agreements were previously provided to FINRA as part of my Sept. 7, 2010 letter to Martha Wiseman of your office. A copy of the Burr

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Helen G. Barnhill, Esq.
December 28, 2012
Page 2

Ridge subscription agreement was given to Ameritas Investment Corp. for inclusion in its June 4, 2010 letter to Ms. Wiseman, and another copy was enclosed with my Nov. 12, 2012 letter to Ms. Susan Byford of your office.)

Since each of the investment entities had informed Mr. Blake, in writing, that the interests being sold did *not* constitute securities, he had no reason to believe that they were securities. Accordingly, he did not treat them as such.

As you are likely already aware, Longest Drive was formed simply to be an investment vehicle for individuals who wished to invest in a particular real-estate development but who might not have been able to invest the required amount otherwise. Instead of having each person invest in, for instance, Burr Ridge on his or her own, the person would instead write a check to Longest Drive, which would then pool all of the checks intended for investment in Burr Ridge and write a single check to Burr Ridge. As Burr Ridge paid out profits, each individual investor would receive an amount commensurate with his or her pro rata percentage of Longest Drive's total investment in Burr Ridge. And Mr. Blake always made clear to the investors that Longest Drive was completely separate from either Carillon or Ameritas. Finally, each investor decided for him or herself whether to invest. Mr. Blake had no control over the money being provided to Longest Drive.

Longest Drive was formed by Mr. Blake and some of his friends. And since Longest Drive was only investing on behalf of friends and family of its members, it did not charge any of those people commissions, handling fees, or in any way make a profit. Mr. Blake handled the investments, disbursements, and K-1s on his own, for no compensation whatsoever. Finally, Longest Drive is no longer making investments, and exists only to pay investors if the current investments should begin to turn a profit.

In further support of Mr. Blake's position that neither he nor Longest Drive received any compensation, attached/enclosed is a letter from Donald Zeleznak, the managing member of Grace Communities/Grace Capital LLC. The letter states that Longest Drive never received any commissions or compensation from Grace, and was not given any special treatment by Grace. This letter was previously provided to FINRA in my February 14, 2012 letter to Susan Byford of your office as a follow-up to Mr. Blake's January 19, 2012 in-person examination.

Second, the Wells letter states that Longest Drive's transactions were "undisclosed." That is also incorrect. As Mr. Blake has repeatedly stated, he always disclosed Longest Drive's activities to his broker-dealer. First to Carillon Investments, Inc., and after Carillon was acquired by Ameritas Investments Corp., he disclosed Longest Drive's activities to Ameritas.

Attached/enclosed is Mr. Blake's Outside Business Activity Questionnaire from fall 2002, in which Longest Drive's activities are described in detail. After reviewing that detailed description of Longest Drive's activities, Carillon approved it.

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Helen G. Barnhill, Esq.

December 28, 2012

Page 3

As set forth Mr. Blake's explanatory letter to Carillon, he received "no fees, compensation or additional benefit for handling investment through Longest Drive other than [his] proportional percentage of profit, if any is generated." In other words, the only benefit that Mr. Blake would receive was the pro rata return on investment that any other investor would receive, since he was an investor himself. Neither he nor Longest Drive ever received any form of compensation for facilitating the investments in the various real-estate projects.

And while the number of Longest Drive's investors grew as the real-estate projects continued to turn profits, the nature and manner of what Longest Drive was doing never changed, and neither Mr. Blake nor Longest Drive ever received any compensation.

Mr. Blake continued to disclose Longest Drive's activities as an outside business activity for every year after that, both to Carillon and to Ameritas. Ameritas has its employees submit their OBAs online and Mr. Blake does not have access to those electronic records, but you can undoubtedly receive them (if you have not already) from Ameritas. Notably, neither Carillon nor Ameritas ever raised red flags about Longest Drive, ever advised Mr. Blake that he was dealing in securities, or ever told him to cease that activity. If either of those entities had been concerned that one of its top-selling employees was improperly selling securities, one or both would have doubtless informed Mr. Blake of that fact, if for no other reason than to protect themselves. Since neither Carillon nor Ameritas ever advised him to stop what he was doing, Mr. Blake therefore had no reason to suspect that he was doing anything which could be considered improper.

Moreover, each year from 2003 to 2012 first Carillon and then Ameritas sent auditors to Mr. Blake's office to physically audit his files and activities. Not once over what was nearly a decade did a single auditor ask for information concerning Longest Drive or any of its projects.

Third, the Wells letter states that Mr. Blake engaged in transactions "totaling approximately \$3.2 million . . ." That is also incorrect. Mr. Blake did not bring all of the investors into Longest Drive. Indeed, he only brought eight investors in, and their investments totaled approximately \$1.7 million dollars. All of Longest Drive's other investors were brought in by other Longest Drive members. The investors that Mr. Blake brought in, and the amount of their investment, are as follows:

•	Steven Bernstein	\$175,000
•	Roger Wooley	\$340,000
•	Pam Pont	\$ 50,000
•	Dan and Kathy Hinsley	\$690,000
•	Larry Hampton	\$100,000
•	Jack Saunders	\$200,000
•	Doug and Kira Pippert	\$100,000
•	Dan Gallagher	\$ 50,000

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Helen G. Barnhill, Esq.
December 28, 2012
Page 4

As you can see, those investments only total \$1,705,000, not the \$3,200,000 stated in the Wells letter.

As to the nature of those investors, Mr. Bernstein is a friend from Mr. Blake's neighborhood. Mr. Wooley has been friends with Mr. Blake for more than thirty years, and Ms. Pont for more than twelve years. Mr. Hinsley is one of Mr. Blake's golfing buddies, and Mr. Hampton is friends with Mr. Blake through their church. Mr. Saunders is a friend, and Mr. Pippert was a friend at the time. And even though the Pipperts filed a complaint against Mr. Blake, he still manages their accounts. Finally, Mr. Gallagher has been friends with Mr. Blake for nearly a decade.

In addition to being friends, some of those individuals were also clients of Mr. Blake, specifically, Mr. Wooley, Ms. Pont, the Hinsleys, the Pipperts, and Mr. Gallagher. And Mr. Saunders became a client after he invested through Longest Drive.

Regarding the investments themselves, the prospectus for each of the projects states, in large lettering on the page immediately following the table of contents, that: "[t]his is a highly speculative real estate development project and should only be made by persons who could afford to lose their entire investment." (Emphasis added.)

This can be seen in the attached/enclosed prospectuses for Burr Ridge and Romeoville. These documents were previously provided to Ameritas for submission to FINRA with Ameritas's June 4, 2010 letter to Ms. Wiseman. (Mr. Blake has been unable to locate the Deer Park prospectus, but is confident that the Risk Analysis for that project is identical to the other two.)

It is also important to note that not a single Longest Drive investor has ever filed a complaint against Mr. Blake as a result of Longest Drive's investments. This includes the Pippert complaint, which did not mention Longest Drive at all.

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Regarding Mr. Blake's alleged violations of NASD and FINRA conduct rules, he strongly denies any such violations. The Wells letter lists three NASD rules and one FINRA rule that he allegedly violated. But one of the NASD rules, 3030, has been "retired" and is therefore no longer in force. And another, 2110, address "front running," and thus has no application to this case.

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Helen G. Barnhill, Esq.

December 28, 2012

Page 5

To the extent that FINRA intended to allege violations of different rules, whether under NASD or FINRA, Mr. Blake does not consider the current Wells letter sufficient notice of any such allegations, and reserves the right to object to any further investigation under rules not currently listed. Without waiving that objection, however, Mr. Blake will nevertheless address the rules that are properly listed, as well as the rule that superseded NASD Rule 3030.

The Wells letter states that Mr. Blake's involvement in the Burr Ridge, Romeoville, and Deer Park investments constituted violations of "NASD Conduct Rules 3040 and 2110."

Concerning NASD Rule 3040, it states that: "No person associates with a member shall participate in any manner in a private securities transaction except in accordance with the requirements of this Rule." NASD Rule 3040(a).

As explained above, though, for each of the real-estate transactions in question Mr. Blake was informed, in writing, by the investment entity that those investment interests did *not* constitute securities. Since according the written notice that Mr. Blake received there were no "private securities transactions," there was no violation of the Rule.

Rule 3040 goes on to state that "[p]rior to participating in a private securities transaction, an associated person shall provide written notice to the member with which he is associated describing in detail the proposed transaction and that person's proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction; provided however that, in the case of a series of related transactions in which no selling compensation has or will be received, an associated person may provide a single written notice." NASD Rule 3040(b).

As also explained above, Mr. Blake did in fact provide, first to Carillon and then to Ameritas, detailed written notice describing Longest Drive's proposed transactions, his role, and the fact that he would not be compensated. And again, neither Carillon nor Ameritas ever raised any red flags, ever told Mr. Blake that they believed he was selling securities, or ever told him to stop. And even after in-person audits of his files, every year, neither of the broker-dealers ever inquired about Longest Drive or its projects. Thus, even if the transactions at issue *were* securities, Mr. Blake complied with the requirements of NASD Rule 3040(b) by giving his broker-dealers written notice that explained the transactions, his role, and the fact that he received no compensation.

In spite of this evidence that there has been no violation, if FINRA nevertheless determines that a violation of Rule 3040 has occurred, Mr. Blake should be given the minimum sanction, because he had justifiable reason to believe that the transactions were not securities; he fully disclosed the transactions and his involvement in them to his broker-dealers; those broker-dealers raised no objections; and Mr. Blake received no compensation.

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Helen G. Barnhill, Esq.

December 28, 2012

Page 6

Concerning NASD Rule 2110, sub-rule 2110-1 is "reserved," and contains no actual text. There is no sub-rule 2110-2, and sub-rule 2110-3 concerns "front running" and is therefore inapplicable to this case. As stated above, it is Mr. Blake's position that whatever NASD Rule was *meant* to be referenced instead of Rule 2110, he has not been provided proper Wells notice of that Rule or its alleged violation.

The Wells letter further claims that "Mr. Blake violated NASD Conduct Rules 3030 and 2110 by engaging in an undisclosed business activity."

Regarding NASD Rule 3030, that Rule has been "retired," and is no longer applicable. To the extent that Mr. Blake is being charged with violating the Rule that superseded NASD Rule 3030 (FINRA Rule 3270), his position is that proper Wells notice has not been given as to any such violation.

Without waiting that objection, however, Mr. Blake asserts that he did not violate the superseding rule, FINRA Rule 3270, either.

That Rule states:

No registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member.

As detailed above, Mr. Blake was neither compensated, nor had an expectation of compensation, from his activities with Longest Drive. As such, there was no violation of FINRA Rule 3270, the Rule that superseded NASD Rule 3030.

As to NASD Rule 2110, as set forth above, that rule address front running, and is not applicable in this case.

And regarding the allegation that Mr. Blake engaged in "undisclosed outside business activity," that is not borne out by the evidence. Attached/enclosed and previously discussed is the detailed description that Mr. Blake provided to Carillon, Ameritas's predecessor, concerning Longest Drive. After reviewing that information, Carillon approved Mr. Blake's activities with Longest Drive. As Carillon's successor, Ameritas not only had access to and knowledge of Mr. Blake's disclosure, he listed his Longest Drive involvement as an outside business activity each year he was with Ameritas as well. Each broker-dealer also performed in-person audits of Mr. Blake's files every year and never questioned him about any of Longest Drive's activities.

BuchalterNemer

Helen G. Barnhill, Esq.
December 28, 2012
Page 7

And as stated previously, while the number of Longest Drive's investors grew over time, the nature of those investments and the nature of Mr. Blake's involvement did not change. Nor did he ever receive any compensation for that involvement. Thus, there was no "undisclosed outside business activity."

Concerning the final rule that Mr. Blake is alleged to have violated, FINRA Rule 2010, it states that: "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

Since Mr. Blake did not violate any other rules, though, there is no basis to determine that he violated FINRA Rule 2010 either. Because without other violations, there are no grounds upon which to conclude that Mr. Blake did anything but observe "high standards of commercial honor and just and equitable principles of trade." Moreover, and as explained repeatedly above, Mr. Blake did not receive compensation for his activities on behalf of Longest Drive; all investors were fully apprised of the risk; he fully disclosed his involvement in and lack of compensation from Longest Drive to his broker-dealers and his broker dealers never raised any objections.

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*

*

Regarding discipline, Mr. Blake's position is that he should not be subject to any, and if he is, it should be minimal. The very first principle of the FINRA Sanction Guidelines is that "sanctions are remedial in nature and should be designed to deter future misconduct and to improve overall business standards in the securities industries." FINRA Sanction Guidelines, General Principles Applicable to All Sanction Determinations ("General Principles"), section 1.

Here, Mr. Blake acted on written information that the investments in questions were not securities. Moreover, he disclosed his actions to each of his broker-dealers on an annual basis. Neither of those broker-dealers made any objection to his actions, nor did they advise him that he was dealing in securities—even after performing in-person audits of his files every single year. Nor did he ever receive any compensation. Based upon those written assurances, his broker-dealers' lack of warning or objection, and the fact that he received no compensation, Mr. Blake did not believe that he was engaging in any improper activity. And it would not serve the Sanction Guidelines' mandate that sanctions be remedial and designed to deter future misconduct if Mr. Blake were disciplined for activity he had no reason to believe was wrong.

The Sanction Guidelines also state that "[d]isciplinary sanctions should be more severe for recidivists."

Until his involvement with Longest Drive and the fallout from that venture, Mr. Blake had no history of sanctions or even investigations with FINRA. And as the Sanction Guidelines indicate, severe discipline should be reserved for recidivists. Mr. Blake, however, does not fall into that category. As a result, if any sanction is issued against him it should not be severe.

BuchalterNemer

Helen G. Barnhill, Esq.
December 28, 2012
Page 8

Further, if FINRA determines that sanctions are appropriate, the alleged violations should be "batched," rather than looked at individually, since all arose from the same activity and through the same entity, Longest Drive.

The Sanction Guidelines advise that violations may be batched where "the violative conduct was unintentional or negligent . . . or the violations resulted from a single systemic problem or cause that has been corrected." Sanction Guidelines, General Principles, section 4. As previously stated, based upon written assurances that he had received and his broker-dealers' lack of notification to the contrary, Mr. Blake did not believe he was engaged in any wrongdoing. As a result, "the violative conduct was unintentional."

Moreover, all of the alleged violations arose from "a single systemic problem or cause that has been corrected." The transactions in which Longest Drive engaged have not changed since fall 2002 when Mr. Blake first disclosed his activities to Carillion. Those transactions were therefore from "a single systemic problem or cause." And since Longest Drive is no longer making investments, that cause "has been corrected." As such, the Longest Drive transactions should be batched and treated as a single violation.

The Sanction Guide also indicates that "[a]djudicators should consider a respondent's ill-gotten gain in determining an appropriate remedy." Sanction Guidelines, General Principles, section 6.

Here, Mr. Blake did not receive *any* gain. He was not compensated for anything he did through or for Longest Drive. Any gain or loss he realized was the same, on a pro rata basis, as that of any other investor because of the fact that he was an investor in each of the transactions as well. Since a respondent's "ill-gotten gain" must be considered in the determination of a sanction, Mr. Blake's *lack of financial gain* should certainly be a factor in assessing any sanction as well. *See*, Sanction Guidelines, General Principles, section 6.

Regarding the specific rules that Mr. Blake is alleged to have violated, only one of them, NASD Rule 3040, is specifically mentioned in the Sanction Guidelines. And most of the considerations listed in that Rule do not apply to Mr. Blake's situation. Mr. Blake only sold to nine customers; the "products" Longest Drive sold have not been found to involve a violation of federal or state securities laws, nor of federal or state SRO rules; neither Mr. Blake nor Longest Drive had a proprietary or beneficial interest in the sales they conducted; Mr. Blake never attempted to create the impression that his employer was involved in the activities of Longest Drive; the sales conducted through Longest Drive did not cause injury to the investing public because each investor was provided a prospectus detailing the risk, made the investment decision on his or her own, controlled the amount of his or her investment—and never filed any complaints; Mr. Blake provided his employer firm with repeated written documentation of Longest Drive's activities; Mr. Blake was never instructed by either of his firms *not* to engage in the Longest Drive activities; Mr. Blake did not recruit other registered individuals to sell

BuchalterNemer

Helen G. Barnhill, Esq.

December 28, 2012

Page 9

interests in the investment properties; and Mr. Blake never misled his broker-dealers as to his involvement in Longest Drive, in fact the opposite is true, he advised his broker-dealer that Longest Drive was an outside business activity each and every year. See Sanction Guidelines, Selling Away (Private Securities Transaction), FINRA Rule 2010 and NASD Rule 3040.

And while Longest Drive admittedly worked with certain of Mr. Blake's broker-dealer clients, many of those individuals were also longtime friends of Mr. Blake. So there is certainly some ambiguity as to whether he was acting in his capacity as a longtime friend or in his capacity as a financial advisor when he told those individuals about the projects Longest Drive was investing in. And given that Mr. Blake never received any compensation, the facts point more in the direction of "friend" than "financial advisor."

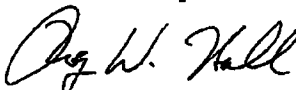
Mr. Blake was told, in writing, that the projects Longest Drive was investing in did not constitute securities. He gave both of his broker-dealers, first Carillion and then Ameritas, a detailed description of his involvement in Longest Drive. Neither of those broker-dealers ever raised any red flags, ever told him that he was dealing in securities, or ever told him to stop. Mr. Blake's files were physically audited every year by his broker-dealers and not once did an auditor ever ask about Longest Drive. Mr. Blake had no control over the funds that a friend or family member provided to Longest Drive; each of those friends or family members made his or her own investment decision, and each one was presented with a prospectus plainly stating the risk involved. Finally, and perhaps most importantly, Mr. Blake received not a dime of compensation for his involvement in Longest Drive.

The foregoing facts weigh very strongly in favor of not proceeding with any type of disciplinary action against Mr. Blake. But if discipline is imposed, it should be minimal given the circumstances.

Both I and Mr. Blake are available to answer additional questions should you have any.

Sincerely,

BUCHALTER NEMER
A Professional Corporation

By 
Roger W. Hall

RWH:jkg
Enclosures

cc: Mr. Michael Blake (via e-mail only)
Sara Andres, Esq. (via e-mail only)

COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

JODI JERICH
EXECUTIVE DIRECTOR



MATTHEW J. NEUBERT
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007
TELEPHONE: (602) 542-4242
FAX: (602) 396-5661
E-MAIL: securitiesdiv@azcc.gov

ARIZONA CORPORATION COMMISSION

August 19, 2013

Michael J. Blake
[REDACTED]
[REDACTED], AZ [REDACTED]



RE: Pending Salesman Application for Blake, Michael J. (CRD #2022161)

Dear Mr. Blake:

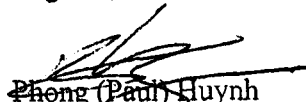
The Securities Division ("Division") has reviewed the correspondence received July 16, 2013 in response to our request for information dated June 24, 2013. Based on that review, the Division requests the following information:

1. Provide a list of Michael J Blake's (may be referred to as "You" or "Mr. Blake") securities/investment clients from January 2006 to the present;
2. Provide the names, addresses, and telephone numbers of all past and current Longest Drive LLC members;
3. Provide all Longest Drive LLC membership agreements and related documents, including the dates of membership, percentages, and amounts;
4. Provide a list of all individuals and clients of Mr. Blake, who invested with Office Condominiums of Geneva, LLC, Office Condominiums of Elgin, LLC, Office Condominiums of Elgin II, LLC, Burr Ridge Holdings, LLC, Grace-Monroe, LLC, Baseline Condo Investors, LLC, and any other commercial real estate investment opportunity offered or sold by Donald Zeleznak and/or Jonathon Vento, including but not limited to, in private placement offerings, promissory notes, deeds of trusts, or membership interests (collectively the "Grace Investment(s)"), whether directly or through Longest Drive LLC;
5. Copies of all Private Placement Memoranda (PPM) relevant to each Grace Investment and all related transaction documents, including but not limited to, subscription agreements, operating agreements, prospectuses, investment checks or transfers, deeds of trusts, guarantees, and the address and legal description of the properties or projects being invested into;

6. An accounting and/or all documents relating to how You or Longest Drive LLC, receipted and disbursed all money related to the Grace Investments. Also provide documentation of all principal and interest payments received, related to the Grace Investments;
7. All documents, correspondences, and communications received from and provided to FINRA regarding FINRA docket/examination # 09-04700, 12-01379, 2010021710501 and 20120331211, and FINRA disciplinary proceeding #20100217105-01. If any of the matters are resolved by hearing, consent, or order, please provide a copy of such document;

Only responses tendered in writing will be considered as adequately responding to this letter. Failure to respond may impact or delay our review of your securities application. Should you have any questions, I can be reached at 602.542.0908 or at phuynh@azcc.gov.

Regards,


Phong (Paul) Huynh
Assistant Chief Counsel
Registration and Compliance

CC: Jeanine Colditz Devine
Mid Atlantic Capital Corporation
1251 Waterfront Place, Suite 510
Pittsburgh, PA 15222-6368

9/15/13

Arizona Corporation Commission
Mr. Phong (Paul) Huynh
Assistant Chief Counsel
Registration and Compliance
1300 West Washington
Third Floor
Phoenix, AZ 85007

Re: Pending Salesman Application for Blake, Michael J. (CRD#2022161)

Dear Mr. Huynh

Thank you for your consideration for my registering my securities license in the state of Arizona. At this time I am only interested in becoming associated with Mid Atlantic Financial Management as an IAR under their RIA.

Once again I want to reiterate that the issues I have had are all the results of an approved outside business activity involving real estate investing. I have never had a complaint in my 23 years regarding my managing of clients assets. I believe the attached letter dated May 24, 2013 from my attorney Roger Hall to Helen G. Barnhill, ESQ, Senior Regional Counsel FINRA, does an excellent job of summarizing my position and the issues. I have attached this letter for your review.

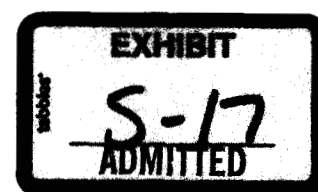
Attached are the explanation and documents that you had requested. I have answered all of your questions to the best of my abilities.
I do appreciate your consideration.

Sincerely,



Michael J Blake

cc. Michael Salcido - Attorney
Roger Hall - Attorney
Tim Brown - Chief Compliance Officer - MAFM



ACC000168
FILE #8451

#2 provide a list of names, addresses, and telephone numbers of all past and current Longest Drive LLC members.

This detail is included in my answer to #3.

#3 Provide all Longest Drive LLC membership agreements and related documents, including the dates of membership, percentages and amounts:

There is no individual membership agreements, what I have included is the members signed project form.

#4 The only known client that invested in Office Condominiums of Elgin LLC and Office Condominiums of Geneva was Kira Pippert. The Pipperts were referred to Grace Communities and made their own decision on investing in these projects.

Burr Ridge investors are included in #3 answers above.

#5 Enclosed are copies of the Subscription for Romeoville Office Investors LLC, the Subscription for Burr Ridge Office Investors, LLC, and the Subscription for The Offices at Deer Park Center.

#6 once someone chose to invest in one of the projects whether it was Burr Ridge Office Investors, LLC, Romeoville Office Investors, LLC or The Offices at Deer Park Center, a check was written to Longest Drive LLC and then a check was written to the project by Longest Drive LLC... So far to date there have not been any principal or dividends received from Grace Communities, therefore no principal or dividends have been sent to any members. . These three projects are still active.

#7 Attached are all documents, correspondences and communications received from and provided to FINRA regarding FINRA docket/examination #09-04700, 12-01379, 2010021710501 and 2012020331211 and FINRA disciplinary proceeding #20100217105-1.

My case has been settled with FINRA, I have attached the Order of Settlement.

BuchalterNemer
A Professional Law Corporation

16435 NORTH SCOTTSDALE ROAD, SUITE 440 SCOTTSDALE, ARIZONA 85254-1754
TELEPHONE (480) 383-1800 / FAX (480) 824-9400

Direct Dial Number: (480) 383-1845
Direct Facsimile Number: (480) 383-1602
E-Mail Address: rhall@buchalter.com

May 28, 2013

Via E-Mail and U.S. Mail

Helen G. Barnhill, Esq.
Senior Regional Counsel
FINRA
4600 South Syracuse Street, Suite 1400
Denver, CO 80237

Re: Michael Blake; Disciplinary Proceeding No. 20100217105-01
Mr. Blake's Settlement Offer

Dear Ms. Barnhill:

This will constitute Mr. Blake's settlement offer to FINRA.

The very first principle of the FINRA Sanction Guidelines—indeed the very first line—is that “sanctions are remedial in nature and should be designed to deter future misconduct and to improve overall business standards in the securities industry.” FINRA Sanction Guidelines, General Principles Applicable to All Sanction Determinations (“General Principles”), section 1 (heading).

As set forth in his Answer, Mr. Blake relied on written information from Grace Communities that the investments being made were not securities. Additionally, and more importantly, every year he disclosed his actions to each of his broker-dealers, on his Outside Business Activities reports. None of his broker-dealers, AXA Advisors, Carillon, or Ameritas, ever made any objection to his actions with Longest Drive. Nor did either of them ever tell him that he was dealing in securities. Further, Mr. Blake's business, Olympus Financial Advisors LLC, received in-person audits of his files every year, and his broker-dealers still never identified anything that was wrong or told him that anything was wrong.

Perhaps most importantly, though, Mr. Blake never received any compensation from Longest Drive or any of its investors as a result of the work he did through or for Longest Drive. Not a dime.

ACC000170
FILE #8451

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Helen G. Barnhill, Esq.

May 28, 2013

Page 2

Based upon the written assurances from Grace Communities, his own broker-dealers' lack of objection or warning, and the fact that he received no compensation, Mr. Blake had no idea that he was dealing in securities. He therefore had no "intent" to engage in any prohibited actions.

Indeed, Mr. Blake's entire goal in forming Longest Drive was to allow friends and family to invest, if they chose to, in what seemed to nearly everyone at the time, to be a red-hot and ever-improving real-estate market. Since Mr. Blake did not receive any compensation whatsoever for his work with Longest Drive, his motivation in telling his friends and family about those investment opportunities was certainly not driven by any financial incentive. And given the FINRA scrutiny that has rained down on him as a result of providing that opportunity, there is absolutely zero chance that Mr. Blake will ever engage in any investment-related outside business activities in the future.

It would therefore not serve the Sanction Guidelines' mandate that sanctions be "remedial" and "designed to deter future misconduct" if Mr. Blake were given a severe sanction, since doing so would then be more in the nature of punishment, rather than the remediation and deterrence mandated by the Sanction Guidelines.

The Sanction Guidelines also state that "[d]isciplinary sanctions should be more severe for recidivists." FINRA Sanction Guidelines, General Principles, section 2 (heading). Until his involvement with Longest Drive, Mr. Blake had a spotless record. He never had any complaints, and had never been investigated by FINRA. He had certainly never been sanctioned by FINRA. Mr. Blake is therefore not a recidivist. And since the Sanction Guidelines reserve severe sanctions for recidivists, Mr. Blake's sanction should not be severe.

The Sanction Guidelines additionally state that "where the violative conduct was unintentional or negligent . . . or the violations resulted from a single systemic problem or cause that has been corrected," those violations should be "batched." Sanction Guidelines, General Principles, section 4.

As explained above and also in his Answer, Mr. Blake had no reason to think that he was engaging in securities trading. The entities being invested in provided written statements to him that the investments were not securities; his broker-dealers were told, every year, of his actions, yet never told him to stop or ever told him that he was trading securities; and his annual in-person audits always came up clean. As a result, "the violative conduct was unintentional."

Further, all of Mr. Blake's alleged violations arose from the same single activity: office-park development investments made through Longest Drive. And since Longest Drive is no longer making any new investments, that single activity has essentially been "corrected."

ACC000171
FILE #8451

BN 14075993v1

Mr. Blake's actions therefore fit squarely within the Sanction Guidelines' rubric for batching, and as a result, Mr. Blake's actions through Longest Drive should be treated as a single violation.

The Sanction Guidelines further state that "[a]djudicators should consider a respondent's ill-gotten gain in determining an appropriate remedy." Sanction Guidelines, General Principles, section 6 (heading").

Here, Mr. Blake did not receive *any* gain, much less any "ill-gotten" gain. He was not compensated for anything he did through or for Longest Drive. Nor did he take or receive a commission from any of the investors in Longest Drive.

Any gain or loss that Mr. Blake realized was the same as that of any other investor, because he personally invested in each of the projects as well. In other words, the opportunities that he told friends and family about were only those that he himself also invested in. Since the Sanction Guidelines mandate that a respondent's "ill-gotten gain" be considered in the determination of a sanction, Mr. Blake's *lack of financial gain* should definitely be a factor in assessing any sanction as well. And since Mr. Blake did not *have* financial gain, any sanction should be less severe.

Regarding the amount of a monetary sanction, the Sanction Guidelines state that "adjudicators are *required* to consider ability to pay in connection with the imposition, reduction or waiver of any fine or restitution." Here, Mr. Blake has been unemployed, and thus without any employment income at all, since April 1. His "ability to pay" is therefore nearly non-existent, since he has virtually no money coming in. And since his lack of income is "required" to be considered as a factor, any monetary sanction should necessarily be relatively low, to reflect the fact that Mr. Blake is rapidly exhausting his financial resources.

Concerning the particular rules that Mr. Blake is alleged to have violated, only two of them, FINRA Rule 2010 and NASD Rule 3040, are specifically mentioned in the Sanction Guidelines. And most of the factors listed with regard to those Rules do not apply to Mr. Blake's situation.

Prior to discussing specific factors, though, it must be noted that NASD Rule 3040 relates to "private securities transactions," and as stated above and in his Answer, Mr. Blake had no reason to believe that his activities with Longest Drive constituted "private securities transactions."

As to some of the specific factors identified in the Sanction Guidelines, Mr. Blake only brought eight investors to Longest Drive, six individuals and two couples.¹ Thus, the number of people involved was not large.

¹ Steve Bernstein; Dan Gallagher; Larry Hampton; Dan and Kathy Hinsley; Doug and Kira Pippert; Pam Pont; Jack Saunders; and Roger Wooley.

BuchalterNemer

Helen G. Barnhill, Esq.

May 28, 2013

Page 4

The "products" that Longest Drive sold, i.e., the investments, have not been found to involve a violation of federal or state securities laws. Neither have they been found to involve a violation of SRO Rules. Thus, that factor is inapplicable to Mr. Blake's situation.

Nor did Mr. Blake or Longest Drive have a proprietary or beneficial interest in the transactions they conducted. Neither Mr. Blake nor Longest Drive took or received any type of commission for the investments. Mr. Blake and Longest Drive were simply conduits for the investors' money: the amount Mr. Blake and Longest Drive received was the exact amount that was invested. No commission or fees were taken out or charged.

Nor did Mr. Blake ever attempt to create the impression that any of his broker-dealers, AXA, Carillon, or Ameritas, were involved in Longest Drive's activities. He always fully disclosed to investors that Longest Drive was separate from the work he was doing for his broker-dealers, that the broker-dealers were not involved, and that he was not charging the investors any kind of commission.

The investments conducted through Longest Drive did not cause injury to the investing public because each investor was provided with a prospectus detailing the risk, including the risk that the entire investment could be lost. Further, each investor made the investment decision on his or her own. Mr. Blake simply advised them of the opportunity. Additionally, each investor controlled the amount of his or her investment; none of the people that Mr. Blake told of the investment opportunity was required to invest more than they were comfortable with, or invest anything at all for that matter.

Mr. Blake also provided his broker-dealers with repeated written documentation of Longest Drive's activities, on his yearly Outside Business Activities forms.

Nor did Mr. Blake ever engage in activities, including Longest Drive activities, after his broker-dealer instructed him not to. Indeed, neither of Mr. Blake's broker-dealers *ever* told him to stop his activities with Longest Drive. And definitely neither of them told Mr. Blake that what Longest Drive was doing constituted securities transactions.

And Mr. Blake never recruited other registered individuals to sell Longest Drive investments.

Finally, Mr. Blake never misled either of his broker-dealers about the existence of his Longest Drive activities. He disclosed Longest Drive, and what it was doing, every year on his Outside Business Activities forms.

ACC000173

FILE #8451

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Helen G. Barnhill, Esq.
May 28, 2013
Page 5

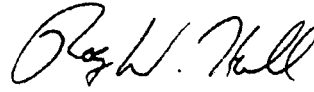
In light of all of the foregoing, Mr. Blake believes that a sanction of suspension for 60 days, beginning retroactively from April 1, as well as a monetary fine of \$4,999, is appropriate.

Thank you for your consideration, Ms. Barnhill, and I look forward to hearing back from you soon.

Sincerely,

BUCHALTER NEMER
A Professional Corporation

By



Roger W. Hall

RWH:jkg

cc: Mr. Michael Blake (*via e-mail only*)

ACC000174
FILE #8451

BN 14075993v1

#1

List of Michael J Blake's securities/investment clients from January 2006 to February 28, 2013.

Dr and Mrs Martin Block

Mr and Mrs Scott Borchert

Ms Beth Brizel

Mr and Mrs Dale Chase

Mr and Mrs Richard Dewitt

Mr and Mrs Bob Elizian

Mr and Mrs John Frangella

Mr and Mrs John Furlong

Dr and Mrs Andrew Atiemo

Mr and Mrs David Boldt

Mr and Mrs Ed Brahocki

Mr and Mrs Geoffrey Budoff

Mr and Mrs William Cheatham

Mr and Mrs Randy Elder

Mr Ty Frisch

Mr and Mrs Dan Gallagher

Mr and Mrs Robert Backie

Mr and Mrs Stan Bootz

Dr and Mrs Warren Breisblatt

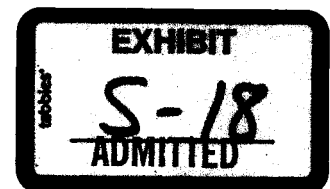
Mr and Mrs Robert Burgess

Ms Lisa Corey

Mr and Mrs Frank Flaschentrager

Mr and Mrs David Fritsche

Mr and Mrs Brian Hampton



ACC000175
FILE #8451

Ms Janet Hampton

Mr and Mrs Roger Hates

Mr and Mrs Tom Henderson

Ms Brenda Hutchinson

Ms Betty Johnson

Ms Joice Kempton

Dr and Mrs Lawrence Kline

Mr and Mrs Chuck Lafferty

Mr and Mrs Larry Mades

Mr Michael McGrady

Ms Tracey Hayes

Dan Hinsley

Mr and Mrs Mark Jebelian

Mr and Mrs jeff Johnson

DR Deepak Khosla

Mr and Mrs Nate Kondo

Mr Doug Mason

Mr and Mrs Andrew Miller

Mr Jeff hawke

Mr John Huffman

Ms Christina Jette

Dr and Mrs Kauffman

Mr and Mrs Dan Ioden

Mr and Mrs Thayor McCall

ACC000176
FILE #8451

Ms Heather Montasir

Mr and Mrs Jeremiah Moore

Mr and Mrs Craig O'Connell

Mr and Mrs Jim Pfeil

Mr and Mrs Scott Rehorn

Mr Robert Sarnecki

Mr Alan Smith

Mr and Mrs David Stone

Mrs Karen Todd

Dr and Mrs Steven Plimpton

Mr and Mrs Jack Saunders

Mr and Mrs Tim Smith

Mr and Mrs John Swanberg

Mr and Mrs William Toon

MS Tonianne Moyes

Ms kerri O'Brein

Mr and Mrs howard Pempsell

Ms Judy Peterson

MS Pam Pont

Drs perminder and hitpreet Sanghera

Mrs Rita Sherman

Ms Lorraine Szarka

Mr and Mrs Mark Wilcox

Mr and Mrs Don Zeleznak

Mr and Mrs Jeff Waggoner

ACC000177
FILE #8451

Mr and Mrs Tom Williams

Mr Jeff Wine

Mr and Mrs David Wang

Mr and Mrs David Willigrod

Mr Kevin Wirkus

Judith Kanaster

William Montgomery

Doris Rhodes

Mr and Mrs Terry Rister

Dr John Baca

Laura Kerr

Mr and Mrs Alan Nanco

Donanld Routson

Mr and Mrs Jim Harris

Mr and Mrs Stephen Byrnes

Nate Duda

Jonathan Duesman

Jennifer Duesman

Christopher Duesman

Mr and Mrs William Duesman

Ralph Klein

Mr and Mrs Doug Pippert

Mr and Mrs David Rudick

Mr and Mrs Michael Schwantes

Chad Hartman

ACC000178
FILE #8451

Sid Hartman

Mr and Mrs Michael Martin

Donna Pashina

Mr and Mrs Daniel Sanford

Mr and Mrs David Tourville

Allison Tourville

Monica Croker

Roger Nicholas

Mr and Mrs Brad Reinders

James Welbourn

Mr and Mrs Michael Asbert

Mr and Mrs Craig Murray

Anne Routson

Mr and Mrs Roger Woolley

Mr and Mrs Robert Ziganto

Mr and Mrs Robert Holman

Kathy Hinsley

Niki Green

Dani Rabwin

Mr and Mrs David Foster

Mr and Mrs Dennis Dryjanski

Mr and Mrs Derek Gryna

Mr and Mrs Tony Payne

Mr and Mrs Justin Hayes

ACC000179
FILE #8451

When I retired from Ameritas Investment Corporation on February 28, 2013, they shut down my access to client data, I complied this list off of my client management system. This is my best effort.

ACC000180
FILE #8451

Longest Drive, LLC

#2
#3
#4 Account Application

11/08

Wire received per

Account Number: 1

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Kendale

This account is for non-IRA monies.

Project: Romeoville

Amount Invested: \$50,000

Account Holder Information

Pamela Pont
Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted City, State, Zip Code] AZ [Redacted Zip Code]

City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

denandpam03@ [Redacted Email Address]

Signature(s)

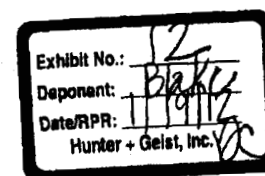
Pamela Pont

3294

LDLLC2006

AIC client

ACC000181
FILE #8451



Longest Drive, LLC

Account Application

Member since 2002

Account Number: 2

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Romeoville Office Investors

Amount Invested: \$100,000

Account Holder Information

Michael Blake and Janice L. Blake
Your Name (Please Print) Trust
12/96

Address

[Redacted Address]
Address
[Redacted City, State, Zip Code] AZ [Redacted Zip Code]
City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code

Fax Number

[Redacted Fax Number]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

mblake@ [Redacted Email Address]

Signature(s)

Michael J. Blake

LDLLC2006

AIC client

3295

ACC000182
FILE #8451

11/06

Longest Drive, LLC

Account Application

Account Number: #3

Longest Drive LLC
Michael J. Blake
Manager
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Romeo ville

Amount Invested: 50,000

Account Holder Information

(If ownership is held by
your living trust- please
include the full name and
date of the trust)

Dan Gallagher
Your Name (Please print)

Theresa
Spouse (if any)

Address

[Redacted Address]
Address
[Redacted] AZ [Redacted]
City, State, Zip Code

Preferred Phone Number

[Redacted]
Please Provide Area Code

Fax Number

[Redacted]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted] [Redacted]

Date of Birth

[Redacted], [Redacted]

Email Address

dgallagher@leanmanagement
[Redacted]

Signature(s)

[Signature]
Dan
[Signature]
Theresa

LDLLC2006

AIC client

3296

ACC000183
FILE #8451

8/06

Longest Drive, LLC

Account Application

FRIEND OF RALPH KLEIN'S

Account Number: — #1

This account is for non-IRA monies.

Project: Deer Park Office Condor

Amount Invested: 50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Renee Resler & her successors
Your Name (Please Print) Declaration Trust

Address

[Redacted Address]

[Redacted City, State, Zip Code] AZ [Redacted Zip Code]

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code.

Fax Number

[Redacted Fax Number]
Please Provide Area Code.

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

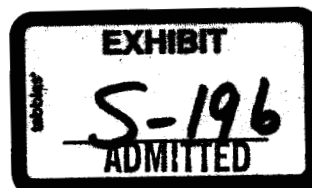
Email Address

rr4naillse [Redacted Email Address]

Signature(s)

[Handwritten Signature]

LDLLC2006



ACC000184
FILE #8451

3297

Longest Drive, LLC

Account Application

Member since 2002

Account Number: 2

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Deer Park Office Investors, LLC

Amount Invested: \$35,000

Account Holder Information

David and Lynn Rudick
Your Name (Please Print)

Address

[Redacted Address]
[Redacted City, State, Zip Code] MN [Redacted Zip Code]
City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code

Fax Number

[Redacted Fax Number]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

rdavidlynn@ [Redacted Email Address]

Signature(s)

David Rudick
Lynn E Rudick

LDLLC2006

AZC client

ACC000185
FILE #8451

3298

Longest Drive, LLC

10/06
Account Application

Neighbor

Account Number: Steven Bernstein #3

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Deer Park Office Investors

Amount Invested: 50,000

Account Holder Information

Steven Bernstein Trust
Your Name (Please Print)

Address

Add

City, State, Zip Code

AZ

Preferred Phone Number

Please Provide Area Code

Fax Number

Please Provide Area Code

Social Security Number or
Tax ID Number

Date of Birth

Email Address

Steven B @

Signature(s) ☒

Steven Bernstein

LDLLC2006

(NO)

ACC000186
FILE #8451

3299

10/06

Longest Drive, LLC

Account Application

Step Father

Account Number: 4

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Deer Park Office Investors LLC

Amount Invested: 50,000

Account Holder Information

RON T Blake
Your Name (Please Print)

Address

[Redacted]
Address

[Redacted] LC [Redacted]
City, State, Zip Code

Preferred Phone Number

[Redacted]
Please Provide Area Code

Fax Number

[Redacted]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted]

Date of Birth

[Redacted]

Email Address

PA4440@ [Redacted]

Signature(s)

Michael J. Blake

LDLLC2006

AIC Client afterward

3300

ACC000187
FILE #8451

Longest Drive, LLC

Account Application

Account Number: 5

10/06

This account is for non-IRA monies.

Project: Deer Park

Amount Invested: 50,000.00

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Roger Woolley
Your Name (Please Print)

Address

Address

City, State, Zip Code

TX

Preferred Phone Number

Fax Number

Social Security Number or
Tax ID Number

Date of Birth

Email Address

rogwoolley@

Signature(s)

Rog Woolley

LDLLC2006

HIC Client

3301

P: 2/2

101197281593330

OCT-31-2006 10:17A FROM:

ACC000188
FILE #8451

PAGE: 1

Longest Drive, LLC

Account Application

Member since 2002

Account Number: 6

This account is for non-IRA monies.

Project: Deer Park

Amount Invested: 15,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Michael T. Blake and Janel
Your Name (Please Print)
Blake Trust 12/96

Address

[Redacted]
Address
[Redacted] AZ [Redacted]
City, State, Zip Code

Preferred Phone Number

[Redacted]
Please Provide Area Code

Fax Number

[Redacted]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted]

Date of Birth

[Redacted]

Email Address

msblake [Redacted]

Signature(s)

Michael J. Blake

LDLLC2006

AIC client

ACC000189
FILE #8451

3302

Longest Drive, LLC

6/06
Account Application

FRIEND OF DAVID BLAKE

Account Number: Tom Ackley #19

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge

Amount Invested: 50,000

Account Holder Information

Tom Ackley/Theresa Ackley
Your Name (Please Print)

~~Address~~

[Redacted Address]

Address

[Redacted City, State, Zip Code] IL [Redacted]

City, State, Zip Code

~~Preferred Phone Number~~

[Redacted Phone Number]

Please Provide Area Code

~~Fax Number~~

[Redacted Fax Number]

Please Provide Area Code

~~Social Security Number~~
Tax ID Number

[Redacted Social Security Number] [Redacted Tax ID Number]

~~Date of Birth~~

[Redacted Date of Birth]

~~Email Address~~

tackley@ [Redacted Email Address]

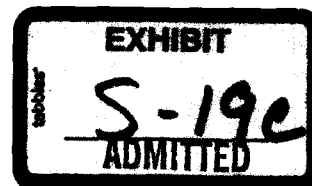
Signature

Theresa Ackley/Theresa Ackley

LDLLC2006

AIC Client afterward

ACC000190
FILE #8451



3303

Longest Drive, LLC

4/06
Account Application

FREIND OF DAVID BLAKE

Account Number: 20

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge

Amount Invested: 50,000

Account Holder Information

Dr. David Broom (t Amy)
Your Name (Please Print)

Address

[Redacted Address]

[Redacted City, State, Zip Code] IL

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code

Fax Number

Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

docbroom@ [Redacted Email Address]

Signature(s)

[Signature]

3304

LDLLC2006

ACC000191
FILE #8451

Longest Drive, LLC

Account Application

Member Since 2003

Account Number: 21

Longest Drive LLC
Michael J. Blake
Manager
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge

Amount Invested: 25,000

Account Holder Information

(If ownership is held by
your living trust- please
include the full name and
date of the trust)

DAVID BLAKE
Your Name (Please print)

DIANE
Spouse (if any)

Address

[Redacted Address]
Add

[Redacted City, State, Zip Code]
City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code

Fax Number

[Redacted Fax Number] *call first*
Please Provide Area Code

**Social Security Number or
Tax ID Number**

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

dblake@ [Redacted Email Address]

Signature(s)

[Handwritten Signature]

LDLLC2006

NO

ACC000192
FILE #8451

3305

Longest Drive, LLC

3/06

Account Application

FRIEND OF DAVID BLAKE

Account Number: 22

This account is for non-IRA monies.

Project: Burr Ridge

Amount Invested: 50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Russell R. Cline
Your Name (Please Print)

Address

Address

City, State, Zip Code

IL

Preferred Phone Number

Please Provide Area Code

Fax Number

N/A
Please Provide Area Code

Social Security Number or
Tax ID Number

Date of Birth

Email Address

Russ. Cline@

Signature(s)

Russell R. Cline

LDLLC2006

(NO)

ACC000193
FILE #8451

3306

* Please fill out and send back

4/06

Longest Drive, LLC

Account Application

FRIENDS OF DAVID BLAKE

Account Number: 23

This account is for non-IRA monies.

Project: BURA Ridge Office Investments, LLC

Amount Invested: \$50,000⁰⁰

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

ALLAN B. JENSEN
Your Name (Please Print)

Address

[REDACTED]
Address
[REDACTED], P.I. [REDACTED]
City, State, Zip Code

Preferred Phone Number

[REDACTED]
Please Provide Area Code

Fax Number

[REDACTED]
Please Provide Area Code

Social Security Number or
Tax ID Number

[REDACTED]

Date of Birth

[REDACTED]

Email Address

A JENSEN 10 [REDACTED]

Signature(s)

Allan Jensen

LDLLC2006

(NO)

ACC000194
FILE #8451

3307

* PLEASE FILL OUT AND SEND BACK

4/06

Longest Drive, LLC

Account Application

FRIEND OF DAVID BLAKE

Account Number: 24

This account is for non-IRA monies.

Project: Burr Ridge office TALKSON, LLC

Amount Invested: \$50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Bradley S. Schlottman
Your Name (Please Print)

Address

[REDACTED]
Address

[REDACTED] IL [REDACTED]
City, State, Zip Code

Preferred Phone Number

[REDACTED]
Provide Area Code

Fax Number

[REDACTED]
Provide Area Code

Social Security Number or
Tax ID Number

[REDACTED]

Date of Birth

[REDACTED]

Email Address

brad.schlott@ [REDACTED]

Signature(s)

[Signature]

LDLLC2006

(nk)

ACC000195
FILE #8451

3308

* Please fill out and send back

4/06

Longest Drive, LLC

Account Application

FRIEND OF DAVID BLAKE

Account Number: 25

This account is for non-IRA monies.

Project: Burr Ridge Office Investors, LLC

Amount Invested: 50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Christopher George Dahm
Your Name (Please Print)

Address

[Redacted]
[Redacted], IL [Redacted]
City, State, Zip Code

Preferred Phone Number

[Redacted]
Please provide Area Code

Fax Number

[Redacted]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted]

Date of Birth

[Redacted]

Email Address

cdahm chrisdahm [Redacted]

Signature(s)

Christopher Dahm

LDLLC2006

ND

ACC000196
FILE #8451

3309

Longest Drive, LLC

4/06
Account Application

FRIEND OF DAVID BLAKE

Account Number: 26

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: BURR Ridge Office Condominiums

Amount Invested: \$25,000⁰⁰

Account Holder Information

DANE M. RESH

Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted Address], IL, [Redacted Address]

City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

[Redacted Fax Number]

Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

DUBENAD @ [Redacted Email Address]

Signature(s)

Dane M Resh

LDLLC2006

NO

ACC000197
FILE #8451

3310

3311

Longest Drive, LLC

4/06
Account Application

FRIEND OF RALPH'S KLEIN

Account Number: 28

This account is for non-IRA monies.

Project: Burr Ridge Investors LLC

Amount Invested: \$50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Myron S. Greenberg
Your Name (Please Print)

Address

Address

City, State, Zip Code

MA

Preferred Phone Number

Fax Number

Social Security Number or
~~Tax ID Number~~

Date of Birth

Email Address

mickjudge@

Signature(s)

Myron Greenberg

LDLLC2006

NO

ACC000199
FILE #8451

3312

Longest Drive, LLC

Account Application

Account Number: 29

This account is for non-IRA monies.

Project: Burr Ridge Investors LLC

Amount Invested: 25,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Michael Blake
Your Name (Please Print)

Address

[Redacted]
Address

[Redacted] AZ [Redacted]
City, State, Zip Code

Preferred Phone Number

[Redacted]
Please Provide Area Code

Fax Number

[Redacted]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted]

Date of Birth

[Redacted]

Email Address

mblake@ [Redacted]

Signature(s)

MJ Blake

LDLLC2006

AIC client

ACC000200
FILE #8451

3313

Longest Drive, LLC

Account Application

Member since 2002

Account Number: 30

This account is for non-IRA monies.

Project: Burr Ridge Investors

Amount Invested: \$40,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

David & Lynn Rudick
Your Name (Please Print)

Address

[REDACTED]
Address

[REDACTED] NW [REDACTED]
City, State, Zip Code

Preferred Phone Number

[REDACTED]
Please Provide Area Code

Fax Number

[REDACTED]
Please Provide Area Code

Social Security Number or
Tax ID Number

Date of Birth

Email Address

drudick@ [REDACTED]

Signature(s)

David Rudick

LDLLC2006

AIC client

ACC000201
FILE #8451

3314

Longest Drive, LLC

3/06
Account Application

FRIEND OF RALPH KLEIN

Account Number: 31

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge Office Investors

Amount Invested: \$135,000

Account Holder Information

David and Arlene Tourville
Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted Address] MN. [Redacted Address]
City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

Please Provide Area Code

**Social Security Number or
Tax ID Number**

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

[Redacted Email Address]

Signature(s)

David and Arlene Tourville

LDLLC2006 ATC client
a

ACC000202
FILE #8451

3315

Longest Drive, LLC

7/06
Account Application

Neighbor

Account Number: 32

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge Investments

Amount Invested: 100,000 ~~125,000~~ 7/31/06
AB

Account Holder Information

STEVEN P BERNSTEIN TRUST
Your Name (Please Print)

Address

[Redacted Address]

Address

City, State, Zip Code

[Redacted City, State, Zip Code]

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code

Fax Number

[Redacted Fax Number]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

Steven P [Redacted Email Address]

Signature(s)

Steven P Bernstein

LDLLC2006

NO

ACC000203
FILE #8451

3316

Longest Drive, LLC

7/06
Account Application

Pippert

Account Number: 33

This account is for non-IRA monies.

Project: Burr Ridge Office Investors

Amount Invested: \$100,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Doug + Kira Pippert
Your Name (Please Print)

Address

[REDACTED]
Address

[REDACTED] MN [REDACTED]
City, State, Zip Code

Preferred Phone Number

[REDACTED]
Please Provide Area Code

Fax Number

[REDACTED]
Please Provide Area Code

Social Security Number or
Tax ID Number

[REDACTED]

Date of Birth

[REDACTED]

Email Address

dpippert@[REDACTED]

Signature(s)

[Signature]
Kira Pippert

LDLLC2006

AIC Client

ACC000204
FILE #8451

3317

Longest Drive, LLC

5/06
Account Application

Daughter of Ralph Klein

Account Number: 34

This account is for non-IRA monies.

Project: Burr Ridge Investors


Amount Invested: 50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Sandra Mirviss
Your Name (Please Print)

Address  

City, State, Zip Code MM 

Preferred Phone Number


Please Provide Area Code

Fax Number


Please Provide Area Code

Social Security Number or
Tax ID Number



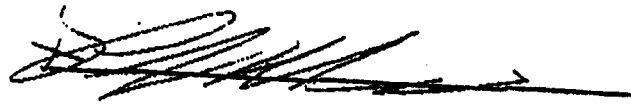
Date of Birth



Email Address

PJC@ 

Signature(s)



LDLLC2006 AIC Client

ACC000205
FILE #8451

3318

Longest Drive, LLC

7/06

Account Application

FRIEND OF RALPH KLEISER

Account Number: # 35,

This account is for non-IRA monies.

Project: Burr Ridge Investors

Amount Invested: \$30,000 \$100,000 AS

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

* Renee Resler & her successor
Your Name (Please Print) in trust

Address

[Redacted Address]

Address

[Redacted Address] AZ
City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

[Redacted Fax Number]

Please Provide Area Code

Social Security Number or
Tax ID Number

* [Redacted Social Security Number]

Date of Birth

* [Redacted Date of Birth]

Email Address

rr4nails@ [Redacted Email Address]

Signature(s)

[Signature] TTE

LDLLC2006

AIC client
afterward

ACC000206
FILE #8451

3319

Longest Drive, LLC

Account Application

Account Number: 36

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burnt Ridge Investors LLC

Amount Invested: 50,000

Member since 2007

Account Holder Information

John Huffman
Your Name (Please Print)

Address

[Redacted Address]
Address

[Redacted City, State, Zip Code]
City, State, Zip Code

Preferred Phone Number

[Redacted Preferred Phone Number]
Please Provide Area Code

Fax Number

[Redacted Fax Number]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

JDHintl@ [Redacted Email Address]

Signature(s)

[Handwritten Signature]

LDLLC2006

ATC Client

ACC000207
FILE #8451

3320

Longest Drive, LLC

7/06
Account Application

Account Number: 37+38

This account is for non-IRA monies.

Project: Burr Ridge Investors

Amount Invested: \$340,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Dan Hinsley Revocable Trust
Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted City, State, Zip Code] AZ [Redacted Zip Code]
City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]
Please Provide Area Code

Fax Number

[Redacted Fax Number]
Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

danhi@ [Redacted Email Address]

Signature(s)

D Hinsley

LDLLC2006

HIC client

ACC000208
FILE #8451

3321

Longest Drive, LLC

8/06
Account ApplicationEX wife of DAN HinsleyAccount Number: ... 39Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge InvertersAmount Invested: \$150,000480-991-4469

Account Holder Information

Kathy Hinsley
Your Name (Please Print)

Address

Address

City, State, Zip Code

Preferred Phone Number

Please Provide Area Code

Fax Number

Please Provide Area Code

Social Security Number or
Tax ID Number

Date of Birth

Email Address

Signature(s)

L011C2006

Wire Transfer 8/1/06
\$150,000

AIC client

3322

Longest Drive, LLC

8/06
Account Application

Account Number: 40

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Barr Ridge Invertors

Amount Invested: \$250,000 \$290,000

Account Holder Information

Roger Woolley
Your Name (Please Print)

Address

[REDACTED]
Address

[REDACTED] TX [REDACTED]
City, State, Zip Code

Preferred Phone Number

[REDACTED]
Please Provide Area Code

Fax Number

[REDACTED]
Please Provide Area Code

Social Security Number or
Tax ID Number

[REDACTED]

Date of Birth

[REDACTED]

Email Address

[REDACTED]

Signature(s)

Rr Woolley

LDLLC2006

\$1 250,000 8/4/06
\$1 40,000 6/15/07

AIC Client

ACC000210
FILE #8451

3323

Longest Drive, LLC

8/06
Account Application

Account Number: 41

This account is for non-IRA monies.

Project: Burr Ridge Investors

Amount Invested: \$100,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

The Hampton Family Trust
Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted City, State, Zip Code] AZ [Redacted Zip Code]

City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

[Redacted Fax Number]

Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

LJHampton@ [Redacted Email Address]

Signature(s)

[Signature]
[Signature]

LDLLC2006

ACC000211
FILE #8451

AIC client

3324

Longest Drive, LLC

8/06
Account Application

Account Number: 42 OUR CPA

This account is for non-IRA monies.

Project: Burr Ridge Investors

Amount Invested: \$50,000

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

Account Holder Information

Evans Company LTD York PA
Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted Address] AZ [Redacted Address]

City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

[Redacted Fax Number]

Please Provide Area Code

Social Security Number or
Tax ID Number

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

Joe C [Redacted Email Address]

Signature(s)

[Signature]

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1.DLLC2006

NO

3325

Longest Drive, LLC

3/07
Account Application

Referral from our Attorney

Account Number: 43

Longest Drive LLC
Michael J. Blake
Managing Partner
9900 N 52nd Street
Paradise Valley, AZ 85253
Phone: (602) 418-8501
Fax: (480) 991-4373

This account is for non-IRA monies.

Project: Burr Ridge Office Investors

Amount Invested: 400,000

Account Holder Information

Edward McCarthy / Barbara Martensen
Your Name (Please Print)

Address

[Redacted Address]

Address

[Redacted City, State, Zip Code] AZ [Redacted Zip Code]

City, State, Zip Code

Preferred Phone Number

[Redacted Phone Number]

Please Provide Area Code

Fax Number

Please Provide Area Code

**Social Security Number or
Tax ID Number**

[Redacted Social Security Number or Tax ID Number]

Date of Birth

[Redacted Date of Birth]

Email Address

[Redacted Email Address]

Signature(s)

[Signature]
Barbara Martensen

ATC Client

LDLLC2006

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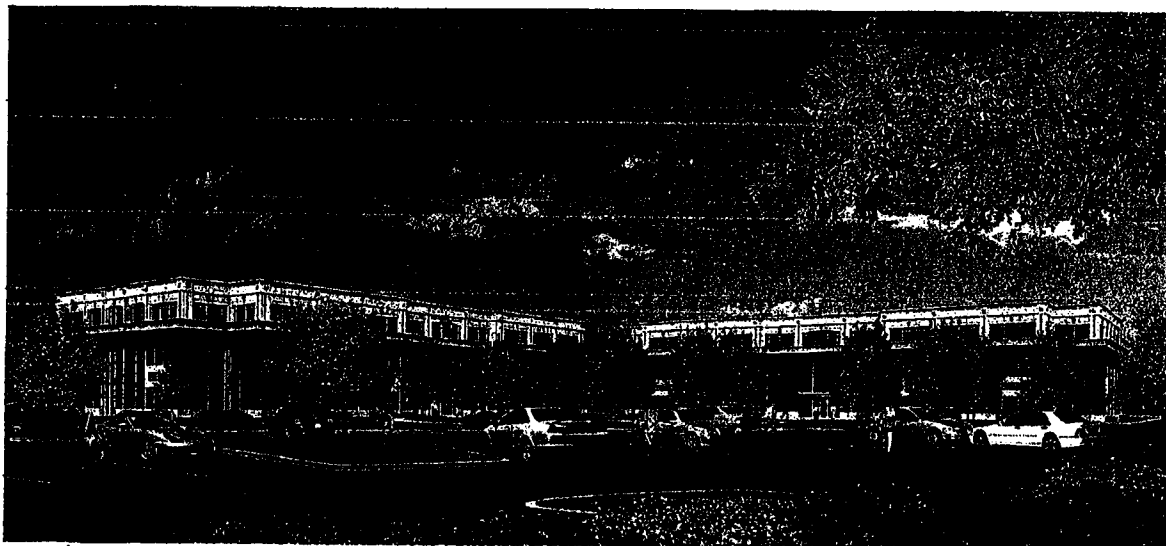
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#5

Offices at Deer Park Town Center

OFFICE CONDOMINIUMS

A Commercial Condominium Development
In Deer Park, Illinois



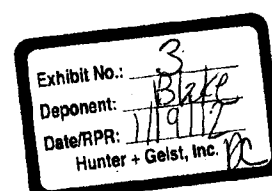
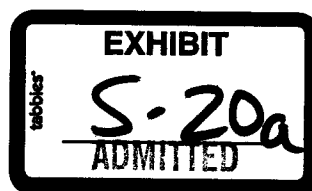
Exclusively Presented
by
Grace Communities

Grace Communities
9300 East Ironwood Square Drive
Scottsdale Arizona 85258



Revised 8/11/08

3163



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FILE #8451

RISK ANALYSIS

This package is intended for sophisticated real estate investors. This is a highly speculative real estate development project and should only be made by persons who can afford to lose their entire investment. Some of the risk factors include no assurance of profitability, a downturn in the commercial real estate market, inability to secure acquisition or construction financing, unforeseen competition and the need for additional capital. We recommend that Investors consult legal, accounting and financial planning advice prior to investing.

The Investor is aware that any renderings depicting individual units, site plans and square footage are all conceptual in nature and may change in the future. Grace Communities reserves the right to modify the interior and exterior design, specifications, location, size, design features and pricing of each unit.

Offices at Deer Park Town Center

OFFICE CONDOMINIUMS

Project Overview

Grace Communities is pleased to announce the development of the Deer Park Office Condominiums located in the pleasant suburban Village of Deer Park, Illinois located 37 miles northwest of Chicago and 22 miles north of O'Hare Airport. With its historically preserved green belt that includes multiple lakes and ponds surrounded by open countryside, Deer Park offers a suburban lifestyle with a touch of wildlife.

120,000 square feet of office space resting on 5 acres that neighbor the popular Deer Park Town Center is under construction. This open-air lifestyle center includes over 65 stores like Banana Republic, Barnes & Noble, and Restoration Hardware, 12 restaurants and a 16-screen movie theater.

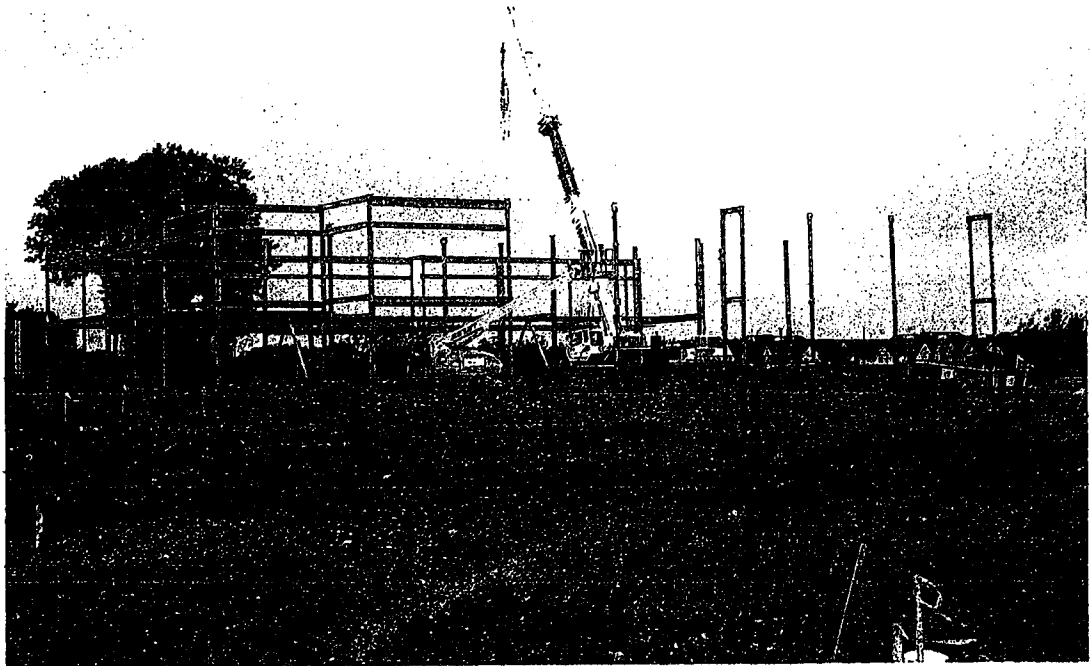
Financial Summary

	<u>Total</u>	<u>Per NSF</u>
Net Revenue	\$ 23,588,000	\$ 196.57
Total Project Costs	\$ 18,985,900	\$ 158.22
Total Project Profit	\$ 4,602,100	\$ 38.35

Offices at Deer Park Town Center

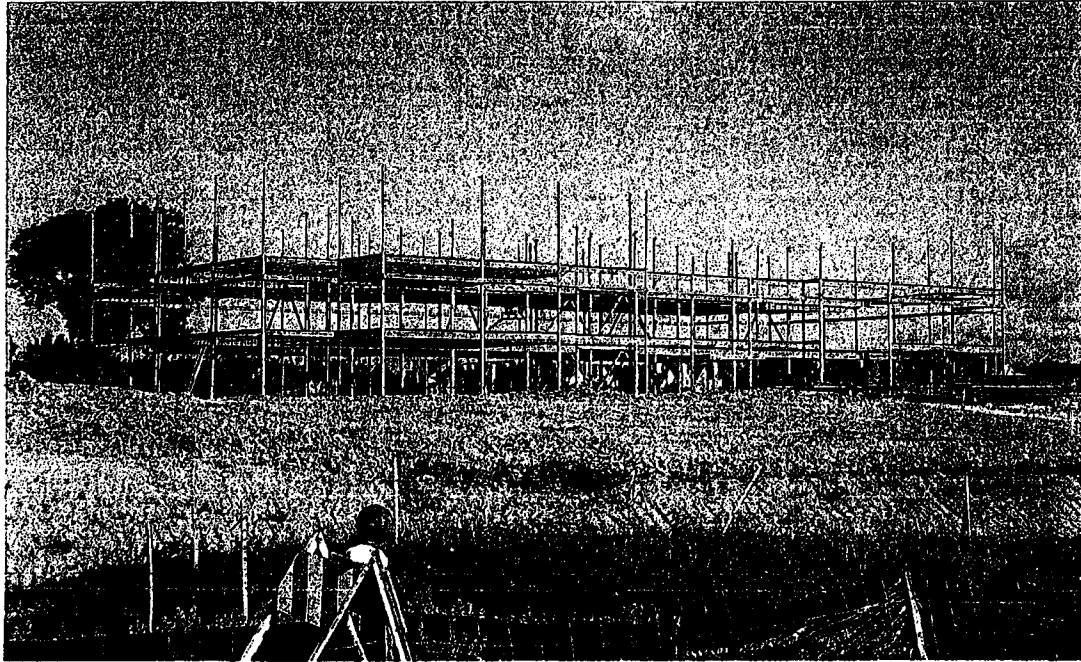
OFFICE CONDOMINIUMS

Construction Has Begun!



Offices at Deer Park Town Center

OFFICE CONDOMINIUMS



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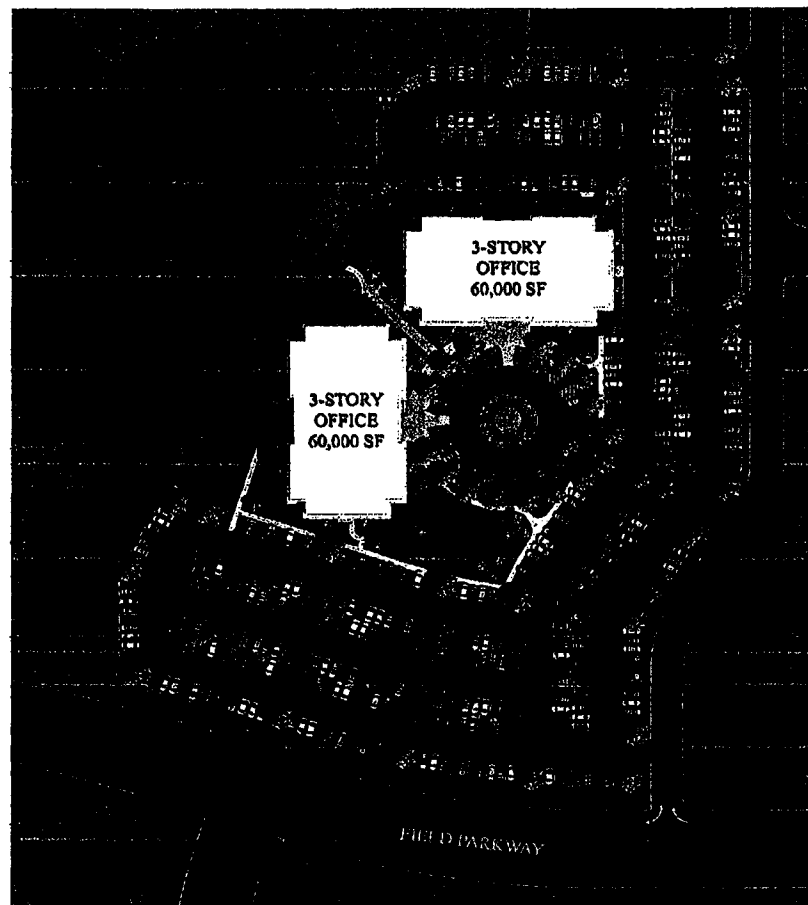
Offices at Deer Park Town Center

OFFICE CONDOMINIUMS



Offices at Deer Park Town Center

OFFICE CONDOMINIUMS



Offices at Deer Park Town Center

OFFICE CONDOMINIUMS

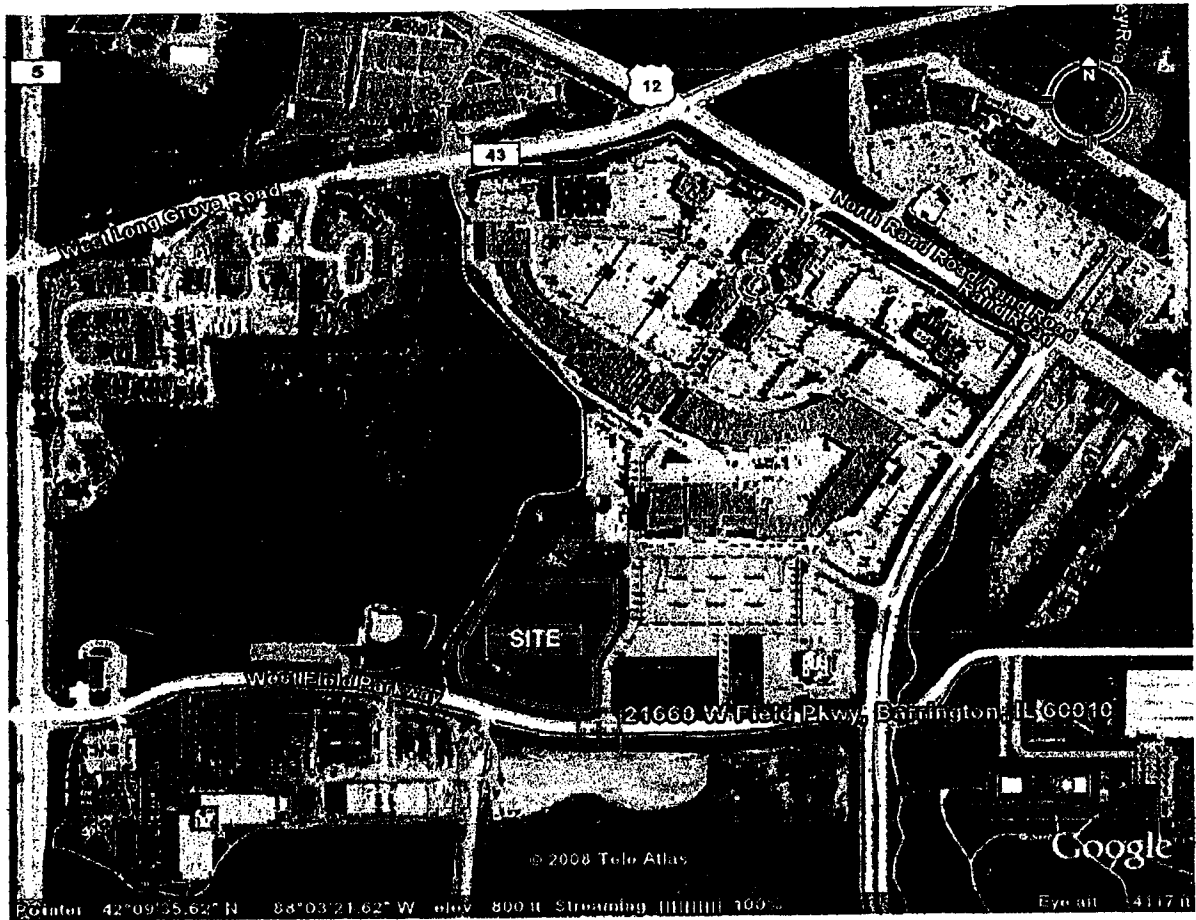


Aerial Photograph

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Offices at Deer Park Town Center

OFFICE CONDOMINIUMS



Site Map

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Offices at Deer Park Town Center

OFFICE CONDOMINIUMS

Disclaimer:

This financial proforma is intended to be reviewed in its entirety. Portions of this financial proforma may lead to inaccurate assumptions when not viewed in the context of the entire proforma.

This financial proforma has been prepared by Grace Communities, based entirely on assumptions provided by the developer. Neither Grace Communities, its affiliates, or individuals involved in completing this financial proforma guarantees the accuracy of these assumptions, or the results projected from these assumptions in this financial proforma. This financial proforma is submitted for use by the developer, investors, and potential lenders as they see fit, and is subject to errors and omissions.

Other entities have made preliminary estimates of the development costs. The design of the project is now being revised and detailed. The development costs and schedule will be updated continuously over the life of the project. Neither Grace Communities, its affiliates, or the other entities guaranty the accuracy of the preliminary development costs or the results projected from these assumptions in this financial proforma.

(J)

SUBSCRIPTION AND COUNTERPART SIGNATURE PAGE
FOR MEMBERSHIP INTERESTS

DEER PARK OFFICE INVESTORS, LLC

January 25, 2006

Donald J. Zeleznak
Jonathon Vento
Deer Park Office Investors, LLC

██████████ Arizona ██████████

Mr. Zeleznak & Mr. Vento:

I am forwarding this letter in connection with my acquisition of ____% membership interests in Deer Park Office Investors, LLC an Arizona limited liability company (the "Company") at a purchase price of Two hundred Fifty thousand and 00/100 Dollars \$ 250,000- + 00/100

You have informed me that the Interests will not be registered pursuant to the Securities Act of 1933, as amended (the "Act"), or under Arizona or any other state's securities laws based upon your belief that the Interests are not "securities" as defined under the Act, or even if so defined, the sale to me qualifies for an exemption from the registration requirements of said federal and state securities laws. You have further advised me that you are relying in part on my representations and warranties as set forth in this letter for purposes of proceeding in this matter and if necessary, claiming such interpretations and exemptions.

Accordingly, I hereby represent and warrant to the Company as follows:

(a) I am aware and understand that the Company has been formed solely to purchase, develop and sell commercial real estate known as "Deer Park", located in the pleasant suburban Village of Deer Park. 37 Miles NW of Chicago and 22 miles North of O'Hare Airport in Deer Park, Illinois. Any funds contributed by Members in excess of the pre-development for Libertyville Office Investors, LLC will be returned to subscribers in proportion to the percentage of the total capital contributions by such subscriber (therefore causing the Percentage Interests of all Members to remain the same);

(b) I understand that my acquisition of the Interests is a speculative investment involving a high degree of risk, including without limitation, any and all risks associated with an investment in commercial real estate.

(c) I have received and reviewed copies of the Operating Agreement for Deer Park Office Investors, LLC ("The Operating Agreement") as well as the proforma for Deer Park Office Investors, LLC and have examined such other documents and made such other inquiries as I deemed appropriate to verify for myself any statements made to me concerning the acquisition of the Interests and the Company's acquisition of Deer Park parcel.

(d) Other than the limited Distribution Rights set forth in the Operating Agreement, I acknowledge that I may have to hold my investment indefinitely and may not be able to liquidate my investment in the Interests, even in the event of a financial emergency. Moreover, I understand that my Distribution Rights under the Operating Agreement are subject to the ability of the Company to sell all or significantly all of the property, including buildings being constructed.

(e) I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of my investment in the interests;

(f) I hereby represent that I have a net worth sufficient to bear the economic risk of losing my entire investment in the Company without impairing my ability to provide for my support and support of those dependant on me;

(g) I acknowledge that I have a pre-existing personal or business relationship with Donald Zeleznak and Jonathon Vento, the "Managing Members" of the Company;

(h) I am acquiring the Interests solely for my own account, for investment, and not with a view to, or for, the resale, distribution, subdivision or fractionalization thereof, and I have no present plans to enter into any contract, undertaking, agreement or arrangement for any such resale, distribution, subdivision or fractionalization thereof;

(i) I have independently evaluated and understand the federal income tax aspects of my investment in the Company, and have received such advice in this regard as I deem necessary from sources that I deem qualified. In particular, I acknowledge and agree that the Company will, pursuant to Section 1.761-2 of the Treasurer Regulations promulgated under the Internal Revenue Code, as amended, elect to have the Company included from Subchapter K of the Internal Revenue Code. As a result, I will receive a K-1 but I will be individually responsible for accounting for and reporting to the Internal Revenue Service my taxable gain, loss or income relating to my contributions to and distributions for the Company regarding my Interests;

(j) I acknowledge that neither the principals of the Company nor any other persons have ever represented, warranted or guaranteed, expressly or by implication:

- (1) the approximate or exact length of time that I will be required to remain a Member of the Company; and
- (2) the percentage of profit and/or amount of, or type of, consideration, profit or loss (including tax write-offs and/or tax benefits) to be realized, if any, as a result of my investment in the Company.

Without in any way limiting my warranties and representations as set forth herein, I further agree that I shall in no event pledge, hypothecate, sell or transfer the Interests other than in compliance with the Operating Agreement.

The warranties and representations contained in this investment letter shall be binding upon my heirs and legal representatives and shall insure to the benefit of the Corporation's success and assigns and your successors and assigns.

I hereby acknowledge that I understand the meaning and legal consequences of the warranties and representations contained above, and I hereby agree to indemnify and hold harmless the Company and each other Member and the Administrator of the Company from and against any and all loss, damage or liability arising from or relating to any breach of any representation or warranty contained in this investment letter.

I hereby acknowledge and agree that this shall constitute my signature page to the Operating Agreement and by my signature below, I agree to be bound by all terms and conditions set forth therein.

Individual Member Signature:

Entity Member Signature:

Signature of individual Member

Print Name of individual Member

Signature of Joint Owner, if applicable

Print Name of Joint Owner, if applicable

Print Address

Phone #

Longest Drive, LLC.
Print Name of Entity Member

By: [Signature]

Signature

Its: Mg. Partner

Please indicate capacity

9900 N. 52nd Street
Paradise Valley, AZ 85253
Print Address

[Redacted]
SS# or Tax ID #

Accepted by Deer Park Office Investors, LLC

By: _____

Its: _____

Date Accepted: _____

Notary for Individual Subscriber:

STATE OF _____ }
County of _____ } ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by _____.

Notary Public

My Commission Expires:

Notary of Entity Subscriber:

STATE OF _____ }
County of _____ } ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by _____, as _____ of _____.

Notary Public

My Commission Expires:

DRAFT

**OPERATING AGREEMENT
OF**

DEER PARK OFFICE INVESTORS, LLC

This Operating Agreement is entered into effective as of this ____ day of May, 2006, by and among **Vento Investments, LLC**, an Arizona limited liability company ("Vento"), and **Zeltor, LLC**, a Nevada limited liability company ("Zeltor"), as the Managers and as Members, and **RJZ Associates, LLC**, an Arizona limited liability company, as a Member, and such other persons who may become Members by executing Subscription Agreements or other appropriate documents that are accepted by the Company, and making their initial Capital Contributions, as Members of **Deer Park Office Investors, LLC**.

**ARTICLE I
THE COMPANY; GENERAL PROVISIONS**

1.1 Formation. The parties have formed the Company as a limited liability company pursuant to the provisions of the Act and upon the terms and conditions set forth in this Agreement and the Articles of Organization. Capitalized terms and phrases used in this Agreement shall have the meanings given those terms in Article II below. The names and addresses of the Members and the Managers are set forth on Exhibit A.

1.2 Name. The name of the Company is Deer Park Office Investors, LLC.

1.3 Purpose. The purposes of the Company and the general character of its business are to: (a) acquire that certain parcel of real property located in Deer Park, Illinois, and more particularly described on Exhibit B (the "Property"); (b) own, develop, operate, lease, finance, refinance, market and sell the Property; and (c) engage in any activities necessary, incidental or related to the foregoing purposes. The Company shall be a limited liability company only for the purposes specified in this Section 1.3 (the "Permitted Activities"). The Company shall not engage in any activity or business other than the Permitted Activities, and no Manager or Member shall have any authority to hold itself out as a general agent of any other Manager or Member in any other business or activity.

1.4 Intent. It is the intent of the Managers and the Members that the Company shall always be operated in a manner consistent with its treatment as a "partnership" for federal and state income tax purposes. The Company is not a "partnership" for purposes of the Arizona Uniform Partnership Act or a "limited partnership" for purposes of the Arizona Uniform Limited Partnership Act, and the Members are not partners. It is also the intent of the Managers and the Members that the Company not be operated or treated as a "partnership" for purposes of Section 303 of the Federal Bankruptcy Code.

1.5 Office. The registered office of the Company within the State of Arizona is 9500 E. Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258. The Managers may change the

Company's registered office to any other place within the State of Arizona upon written notice to the Members.

1.6 Agent for Service of Process. The name and address of the agent for service of legal process on the Company in Arizona is Donald J. Zeleznak, 9500 E. Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258. The Managers may change the Company's agent for service of process upon written notice to the Members.

1.7 Term. The term of the Company commenced on the date the Articles of Organization were filed with the Arizona Corporation Commission and shall continue until dissolved as set forth in this Agreement.

1.8 Independent Activities.

(a) Each Member hereby expressly acknowledges that each Manager and Member (either directly or through its Affiliates) is involved in transactions, investments and business ventures and undertakings of every nature, some of which involve the real estate acquisition, development, leasing and sale industry (all such investments and activities being referred to as "Independent Activities").

(b) Nothing in this Agreement shall be construed to: (i) prohibit any Manager or any Member or their respective Affiliates from continuing, acquiring, owning or otherwise participating in any Independent Activity that is not owned or operated by the Company, even if such Independent Activity is or may be in competition with the Company; or (ii) require any Manager or any Member to allow the Company or the other Members to participate in the ownership or profits of any such Independent Activity. To the extent any Member would have any rights or claims against a Manager or Member as a result of the Independent Activities of such Person or its Affiliates, whether arising by statute, common law or in equity, the same are hereby waived with respect to the operation of the Company.

(c) Each Member hereby represents and warrants to each Manager and to each other Member that it has not been offered, as an inducement to enter into this Agreement, the opportunity to participate with any Manager or any other Member in the ownership or profits of any Independent Activity of any kind whatsoever of such Manager or Member or its Affiliates.

(d) The Managers and the Members hereby expressly acknowledge, represent and warrant to one another that they are sophisticated investors, they understand the terms, conditions and waivers set forth in this Section 1.8, and that the provisions of this Section 1.8 are reasonable, taking into account their relative sophistication and bargaining position.

ARTICLE II **DEFINITIONS**

Unless otherwise expressly provided herein or unless the context otherwise requires, the terms and phrases with initial capital letters used in this Agreement shall be defined as follows:

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"Act" means the Arizona Limited Liability Company Act, as set forth in Arizona Revised Statutes § 29-601 et. seq., as amended from time to time.

"Adjusted Capital Account Balance" means an amount with respect to any Member equal to the balance in such Member's Capital Account at the end of the relevant fiscal year, after increasing the balance in such Member's Capital Account by any amount which such Member is deemed to be obligated to restore pursuant to Regulations §§ 1.704-2(g) (1) and 1.704-2(i) (5).

"Affiliate(s)" of a Person means: (a) any Person directly or indirectly owning, controlling or holding with power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (b) any Person ten percent (10%) or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by the Person in question; (c) any Person directly or indirectly controlling, controlled by or under common control with the Person in question; (d) any officer, director, member, or partner of the Person in question; and (e) if the Person in question is an officer, director, member or partner, any company for which such Person acts in any such capacity.

"Agreement" means this Operating Agreement, as amended from time to time. Words such as "herein," "hereinafter," "hereof" and "hereunder," refer to this Agreement as a whole, unless the context otherwise requires.

"Articles of Organization" means the Articles of Organization of the Company filed with the Arizona Corporation Commission on May 4, 2006, as amended from time to time.

"Book Value" has the meaning given that term in Section 4.3(b).

"Capital Account" means, with respect to each Member, the Capital Account maintained for such Member in accordance with Section 4.6.

"Capital Contributions" means the amount of cash and the net fair market value of any property contributed by each Member to the Company pursuant to Article III, but shall not include amounts paid to any Person with respect to any assignment of any interest in the Company or any substitution of a Member.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Company" means the limited liability company formed pursuant to the Articles of Organization and any limited liability company continuing the business of this Company in the event of dissolution as herein provided.

"Event of Withdrawal" means an event listed in Section 29-733 of the Act.

"Grace" means Grace Capital, LLC, an Arizona limited liability company.

"Independent Activities" has the meaning given that term in Section 1.8(a).

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"Manager" means each of Vento and Zeltor or any Person appointed to act as a successor Manager in accordance with the terms of this Agreement and designated as such in an amendment to the Articles of Organization.

"Member Loan" has the meaning given that term in Section 3.1(d).

"Member" means any Person identified as a Member in the heading to this Agreement. If any Person is admitted as a Substituted Member pursuant to the terms of this Agreement, "Member" shall be deemed to refer to such Person.

"Net Cash Flow" means the gross cash proceeds to the Company from all sources less the portion thereof used to pay or establish reserves for Company expenses, debt payments, capital improvements, replacements and contingencies, all as reasonably determined by the Managers.

"Percentage Interest" means a Member's interest, expressed as a percentage, in Profits, Losses, and distributions of the Company as provided for in this Agreement. The Members' Percentage Interests are set forth opposite their names on Exhibit A.

"Permitted Activities" has the meaning given that term in Section 1.3.

"Person" means any natural person, partnership, joint venture, limited liability company, corporation, estate, trust, association or other legal entity.

"Profits" and "Losses" mean, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a), upon consultation with the Company's accountants or legal counsel, to comply with relevant Regulations.

"Property" has the meaning given that term in Section 1.3.

"Recipient Member" has the meaning given that term in Section 4.2(a).

"Regulations" shall mean the Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time.

"Substituted Member" means any Person admitted to the Company as a Member pursuant to Section 8.3.

"Tax Advances" has the meaning given that term in Section 4.2(a).

"Tax Amount" means an amount with respect to each Member (which may be a positive or negative number), determined on a yearly basis, equal to (a) the combined maximum Arizona and federal income tax rates applicable to individuals for the period with respect to which the Tax Amount is being determined, multiplied by (b) such Member's "net income" or "net loss" for the year with respect to which the Member's Tax Amount is being determined. Each Member's Tax Amount shall be determined on an estimated basis, taking into account the best information

available to the Managers, but shall be subject to reconciliation annually at the time the Company's federal income tax returns are filed. For purposes of this definition, "net income" means the amount, if any, by which the items of income and gain allocated to a Member for a year exceed the items of loss and deduction allocated to that Member for such year, and "net loss" means the amount, if any, by which the items of loss and deduction allocated to a Member for a year exceed the items of income and gain allocated to that Member for such year.

"Transfer" has the meaning given that term in Section 8.1.

"Unfunded Tax Amount" means, with respect to each Member, the excess, if any, of: (a) the sum of such Member's Tax Amounts for the entire term of the Company, over (b) the sum of: (i) all amounts previously distributed to such Member pursuant to Section 4.1; and (ii) the portion of such Member's Tax Advances (if any) that have not been offset by distributions withheld under Section 4.2(b).

"Unreturned Capital Contributions" means, with respect to each Member, such Member's total Capital Contributions less distributions previously received by the Member pursuant to Section 4.1(c).

ARTICLE III **CAPITAL CONTRIBUTIONS AND RELATED MATTERS**

3.1 Initial Capital Contributions; Additional Capital Contributions; Initial Capital Account Credits and Percentage Interests; Member Loans.

(a) Initial Capital Contributions. Concurrently with the execution of this Agreement by the Managers and all of the Members, each Member shall contribute to the Company the amount of cash set forth opposite such Member's name on Exhibit A.

(b) Initial Capital Account Credits and Percentage Interests. In conjunction with the foregoing contributions, each Member shall receive a Capital Account credit and Percentage Interest in the Company as set forth on Exhibit A.

(c) Additional Capital. Except as provided in Section 3.1(a) above and Section 4.2(b) below, no Member shall be required to make any Capital Contributions to the Company unless such Member agrees in writing to do so.

(d) Member Loans. Any Member may, with the written consent of the Managers, make a loan (a "Member Loan") to the Company, solely to further the business of the Company. Member Loans shall bear interest at a rate equal to the cost of borrowed funds to the Member making the Member Loan plus three percent (3%) per annum, and shall be repaid on such reasonable terms and conditions as may be approved by the Managers. No Member shall be required to make a Member Loan unless such Member has agreed in writing to do so. Member Loans shall be liabilities of the Company and, unless otherwise agreed by the Managers and the lending Member, shall be paid from Net Cash Flow prior to any distributions to the Members.

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(e) No Creditor Rights or Third Party Beneficiaries. The provisions of this Section 3.1 are solely for the benefit of the Members, and no provision of this Agreement is (or shall be deemed to be) for the benefit of or enforceable by any creditor, contractor or subcontractor of the Company or any Member, and no creditor of the Company will be entitled to require any Manager or any Member to solicit or demand Capital Contributions or Member Loans from any other Member.

3.2 Limitations Pertaining to Capital Contributions.

(a) Return of Capital. Except as otherwise provided in this Agreement, no Member shall withdraw any Capital Contributions or any money or other property from the Company without the written consent of the Managers. Under circumstances requiring a return of any Capital Contributions, no Member shall have the right to receive property other than cash, unless otherwise specifically agreed in writing by the Managers at the time of such distribution. No Member shall have priority over any other Member as to return of Capital Contributions, allocations of income, gain, losses, credits, deductions, or as to distributions, except as otherwise specifically provided in this Agreement.

(b) Liability of Members. Except as agreed upon in writing, no Manager or Member shall be personally liable for the debts, liabilities, contracts or any other obligations of the Company. Except as agreed upon by the Members, and except as otherwise provided by Section 29-651 of the Act or by any other applicable state law, the Members shall be liable only to make the Capital Contributions as provided in Section 3.1(a) above and Section 4.2(b) below, and shall not be required to make any other Capital Contributions or loans to the Company. Unless otherwise provided under the Act or other applicable state law, no Manager or Member shall have any personal liability for the repayment of the Capital Contributions or Member Loans of any other Member.

(c) No Interest, Salary or Reimbursement. Except as specifically provided in this Agreement or otherwise agreed by the Members, no Member shall receive any interest, salary or drawing with respect to such Member's Capital Contributions or Capital Account.

(d) Withdrawal. Except as provided in Article VIII, no Member may voluntarily or involuntarily withdraw from the Company or terminate its interest in the Company without the prior written consent of the Managers. Any Member which withdraws from the Company in breach of this Section 3.2(d), or any Member with respect to which an Event of Withdrawal occurs:

- (i) shall be an assignee of a Member's interest, as provided in the Act;
- (ii) shall have no right to participate in the business and affairs of the Company or to exercise any rights of a Member under this Agreement or the Act; and
- (iii) shall continue to share in Company distributions, on the same basis as if it had not withdrawn (or as if the Event of Withdrawal had not occurred), provided that any damages to the Company as a result of such withdrawal (or Event of Withdrawal) shall be offset against amounts that would otherwise be distributed to such Member.

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ARTICLE IV
ALLOCATION OF DISTRIBUTIONS, PROFITS, LOSSES
AND OTHER ITEMS AMONG THE MEMBERS

4.1 Net Cash Flow. The Company's Net Cash Flow shall be distributed from time to time as determined by the Managers, in the following order of priority:

- (a) First, to make Tax Advances to the Members, if and to the extent required under Section 4.2;
- (b) Second, to repay all Member Loans in full;
- (c) Third, to the Members in proportion to their respective Unreturned Capital Contributions, until the Unreturned Capital Contributions of all of the Members have been reduced to zero; and
- (d) Fourth, the balance, if any, to the Members in proportion to their Percentage Interests.

4.2 Tax Advances.

(a) Requirement to Make Tax Advances. Prior to making any distributions of Net Cash Flow pursuant to Section 4.1, the Managers shall determine the extent to which any Member would have an Unfunded Tax Amount if the Net Cash Flow were distributed in accordance with Sections 4.1(b) through 4.1(d) above. If any Members would have Unfunded Tax Amounts under the circumstances described in the preceding sentence, the Company shall make advances ("Tax Advances") to such Members ("Recipient Members"), in proportion to their respective Unfunded Tax Amounts, until all Members' Unfunded Tax Amounts have been reduced to zero.

(b) Repayment of Tax Advances. Tax Advances shall be recovered by the Company from a Recipient Member by withholding any amounts otherwise distributable to the Recipient Member pursuant to Sections 4.1(b) through 4.1(d), until the amounts withheld are equal to the total Tax Advances made to the Recipient Member. Amounts withheld under the preceding sentence: (i) shall be deemed to have been distributed to the Recipient Member for purposes of determining the Recipient Member's right to share in future distributions under this Agreement; and (ii) shall be added to the Net Cash Flow and applied in accordance with the priorities in Section 4.1. If, upon liquidation of the Company, the amounts withheld under this Section 4.2(b) with respect to any Member are less than the Tax Advances received by that Member over the course of the Company's existence, then such Member shall contribute cash to the Company in an amount equal to the deficiency, which will be treated as proceeds available for distribution in accordance with Section 4.1.

4.3 General Allocation Rules.

(a) General Allocation Rule. For each taxable year of the Company, subject to the application of Section 4.4, Profits and/or Losses shall be allocated to the Members in a manner which causes each Member's Adjusted Capital Account Balance to equal the amount that would be distributed to such Member pursuant to Section 9.3(a) (iii) upon a hypothetical liquidation of the Company in accordance with Section 4.3(b).

(b) Hypothetical Liquidation Defined. In determining the amounts distributable to the Members under Section 9.3(a)(iii) upon a hypothetical liquidation, it shall be presumed that: (i) all of the Company's assets are sold at their respective values reflected on the books of account of the Company, determined in accordance with Code Section 704(b) and Regulations thereunder ("Book Value"), without further adjustment; (ii) payments to any holder of a nonrecourse debt are limited to the Book Value of the assets securing repayment of such debt; and (iii) the proceeds of such hypothetical sale are applied and distributed (without retention of reserves) in accordance with Section 9.3(a).

(c) Special Loss Allocation. If the Company incurs Losses at any time when the Members' Adjusted Capital Account Balances have been reduced to or below zero, such Losses shall be allocated to the Members in proportion to their Percentage Interests.

(d) Special Profits Allocation. If the Company incurs Profits at any time when the Members' Adjusted Capital Account Balances are less than zero and the hypothetical liquidation described in Section 4.3(b) would not result in any distributions to the Members, Profits shall be allocated to the Members in proportion to their negative Adjusted Capital Account Balances, until such negative balances have been eliminated.

(e) Item Allocations. If the Managers determine, upon consultation with the Company's tax advisors, that allocations of Profits and/or Losses over the term of the Company are not likely to produce the Adjusted Capital Account Balances intended under this Section 4.3, then special allocations of income, gain, loss and/or deduction shall be made as deemed necessary by the Managers to achieve the intended Adjusted Capital Account Balances.

4.4 Regulatory Allocations. The allocations set forth in Section 4.3 are intended to comply with the requirements of Regulations Sections 1.704-1(b) and 1.704-2. If the Company incurs "nonrecourse deductions" or "partner nonrecourse deductions," or if there is any change in the Company's "minimum gain" or "partner nonrecourse debt minimum gain," as defined in such Regulations, the Managers shall make the following adjustments to the allocations required under this Section 4:

(a) "partner nonrecourse deductions" shall be allocated to the Member who bears the economic risk of loss associated with such deductions, determined in accordance with the Regulations; and

(b) in the event of a decrease in "minimum gain" or "partner nonrecourse debt minimum gain," items of income and gain shall be allocated to the Members in the manner and to

the extent required under the Regulations to comply with any requirement for a "minimum gain chargeback" thereunder.

In addition, if a Member receives an adjustment, allocation or distribution described in Regulations Section 1.701-1(b)(2)(ii)(d)(4), (5) or (6) and as a result thereof has a negative Adjusted Capital Account Balance (after taking into account the adjustments described in the foregoing Regulations Sections), items of income and gain shall be allocated to such Member in an amount and manner sufficient to constitute a "qualified income offset" within the meaning of the Regulations.

4.5 Special Tax Allocations. The Company shall make such allocations as may reasonably be required to comply with the requirements of Code Section 704(c) and any Regulations thereunder with respect to any property contributed to the Company by any Member, using such method as is determined by the Managers, consistent with the requirements of the Regulations promulgated under Code Section 704(c). If the Book Value of any Company asset is adjusted in accordance with the Regulations under Code Section 704(b), the Company shall make allocations with respect to such asset in a manner determined by the Managers, consistent with the requirements of Regulations Section 1.704-1(b)(2)(iv)(g).

4.6 Capital Account. A Capital Account shall be maintained for each Member in accordance with the Regulations, under uniform policies and procedures established by the Managers, upon consultation with the Company's tax advisors.

4.7 Treatment of Fees. Fees payable to a Member, as provided in Article VI, shall be treated solely for tax purposes (and not for purposes of determining such Member's right to receive such fees) as "guaranteed payments" within the meaning of Code Section 707(c).

ARTICLE V MANAGEMENT OF THE COMPANY

5.1 Management of the Company.

(a) Administrative Manager – Day-to-Day Management. The day-to-day business and affairs of the Company shall be managed by the Company's "Administrative Manager". The initial Administrative Manager of the Company shall be Jonathon Vento. An Administrative Member may be removed or replaced by the affirmative vote of a majority in number of the Managers other than the Administrative Manager. If the Administrative Manager resigns, a replacement Administrative Manager may be appointed by the affirmative vote of a majority in number of the Managers other than the resigned Administrative Manager. Subject to the other terms of this Agreement, including Section 5.1(c) below, the Administrative Manager shall have the duty, responsibility and authority, of behalf of the Company, to, in accordance with each applicable Approved Budget:

(i) negotiate and execute on behalf of the Company all instruments and documents: (1) necessary to carry out the ordinary business of the Company (including, without limitation, checks, drafts and contracts which are terminable by the Company within 30 days and without penalty); or (2) approved by the Managers;

ACC000236
FILE #8451

- (ii) oversee and manage the development of the Property;
- (iii) purchase liability and other insurance to protect the Company's Property and business;
- (iv) open bank accounts in the name of the Company;
- (v) temporarily invest Company funds in short term insured accounts to the extent not required to pay the current expenses of the Company's business;
- (vi) employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;
- (vii) act as the "tax matters partner" pursuant to Code Section 6221;
- (viii) pay all expenses of the Company, including, without limitation, taxes, insurance, property management fees, legal, accounting and other professional services fees and ordinary maintenance expenses, all in accordance with each applicable Approved Budget; and
- (ix) do and perform all other acts as may be necessary or appropriate to the conduct of the day-to-day operations of the Company in accordance with each applicable Approved Budget.
- (x) execute all closing documentation necessary for the acquisition of land or for the closing of condominium units on behalf of the Managers.

(b) Budget Preparation and Approval Process.

(i) Submission of Annual Budgets. On or before June 31 of each calendar year, the Administrative Manager shall prepare and submit to the Managers a proposed budget for the Company's operations for the immediately following calendar year. (each a "Proposed Budget"). The initial Proposed Budget for the Company's operations during the period beginning on the date of this Agreement and ending on December 31, 2006, is attached as Exhibit C (the "Initial Proposed Budget"). Before any Proposed Budget is implemented, the Managers will be required to approve the Proposed Budget as provided in Section 5.1(b) (ii) below. A proposed amendment to an Approved Budget will also require the approval of the Managers as provided in Section 5.1(b) (ii) below.

(ii) Review Period. The Managers shall have thirty (30) days within which to review a Proposed Budget (or any amendment to an Approved Budget proposed by the Administrative Manager). Unless a Manager objects in writing to the Proposed Budget (or an amendment to an Approved Budget) within such thirty (30) day period, the Proposed Budget (or amendment to an Approved Budget) shall be deemed approved by the Managers and shall be deemed an "Approved Budget" hereunder. The Initial Proposed Budget is hereby approved by the Managers and shall be an Approved Budget. Until any Proposed Budget or amendment to an

ACC000237
FILE #8451

Approved Budget is adopted, the existing Approved Budget will remain in effect, and the Administrative Manager will be authorized to act in accordance with the previously existing Approved Budget.

(c) Managers. Except to the extent specifically delegated to the Administrative Manager pursuant to Section 5.1(a) above, the right to manage, control and conduct the business and affairs of the Company shall be vested solely in the Managers, and all decisions regarding the operation of Company and its business and affairs shall be made by the affirmative vote of a majority in number of the Managers. The Managers shall devote such time and effort to the Company and its business as is appropriate to conduct the business of the Company in an effective manner, but shall not be required to devote full time efforts to the Company. Any vote that is deadlocked shall be resolved by Jonathon Vento casting the deciding vote. Decisions requiring the affirmative consent of the Managers shall include, but not be limited to, the following:

(i) pay or commit to pay any extraordinary expense of the Company not authorized in an Approved Budget;

(ii) incur any indebtedness, commitment, obligation or liability other than as set forth in an Approved Budget;

(iii) cause the Company to enter into any agreement or contract which is not terminable by the Company within 30 days and without penalty;

(iv) sell all or substantially all of the Property or acquire or sell any other real property;

(v) causing the Company to borrow money, whether secured or unsecured, from banks, other lending institutions, any Member, any Affiliate of a Member or any other source;

(vi) cause the Company to encumber or grant security interests in its assets to secure repayment of borrowed sums;

(vii) amend the Articles of Organization, except that any amendments required under the Act to correct any inaccuracy in the Articles of Organization or to reflect a change in the Members may be filed at any time by the Administrative Manager;

(viii) authorize the Company to make an assignment for the benefit of creditors of the Company, file a voluntary petition in bankruptcy or consent to the appointment of a receiver for the Company or its assets; or

(ix) take any other action requiring the consent of the Managers under the terms of this Agreement.

(d) Company Bank Accounts. The Administrative Manager shall cause the Company to open a business checking account at National Bank of Arizona, Scottsdale, Arizona

and at Union National Bank, St. Charles, Illinois. The Administrative Manager shall be authorized to sign checks in the Company's name to the extent any such check is for the payment of an expense reflected in an Approved Budget.

5.2 Limitations on Liability; Indemnity. No Manager or Member, or its or their Affiliates (an "Actor"), shall be liable to the Company or to the other Managers or Members for actions taken in good faith by the Actor in connection with the Company or its business; provided that an Actor shall in all instances remain liable for acts in breach of this Agreement or which constitute bad faith, fraud, willful misconduct or gross negligence (except to the extent the Company is compensated for the same by insurance coverage maintained by the Company). The Company, its receiver or trustee shall indemnify, defend and hold harmless each Actor, to the extent of the Company's assets (without any obligation of any Member to make contributions to the Company to fulfill such indemnity), from and against any liability, damage, cost, expense, loss, claim or judgment incurred by the Actor arising out of any claim based upon acts performed or omitted to be performed by the Actor in connection with the business of the Company, including without limitation attorneys' fees and costs incurred by the Actor in the settlement or defense of such claim; provided that no Actor shall be indemnified for claims based upon acts performed or omitted in breach of this Agreement or which constitute bad faith, fraud, willful misconduct or gross negligence.

5.3 Reimbursement of Manager Expenses. Each Manager shall be entitled to reimbursement from the Company for costs incurred by it in connection with the performance of its duties hereunder, but only to the extent such expenditures are set forth in an Approved Budget.

ARTICLE VI FEES TO THE MANAGERS, CERTAIN MEMBERS AND THEIR AFFILIATES

6.1 Fees. The following fees shall be paid to certain Managers, certain Members and certain of their respective Affiliates:

(a) Development Fee. In connection with the infrastructure development of the Property and the development of the office condominium buildings, the Company shall pay a development fee of \$300,000 (the "Development Fee") to Grace, which is owned indirectly by Jonathon Vento, a Member of Vento, and by Zeltor. The Development Fee shall be payable as follows: \$150,000 upon the close of escrow to purchase the Property (provided all equity has been received by the Company) and the balance to be paid in equal monthly installments over the remaining ten (10) month period (\$15,000 per month), commencing with the acquisition date of the Property.

(b) Building Construction Management Fee. In connection with the construction of the Property, the Company shall pay a building construction management fee of \$100,000 (the "Building Construction Management Fee") to Vento, a Manager and Member of the Company. The building construction management fee shall be paid in five (5) equal payments commencing with the issuance of the preliminary grading permit for the buildings.

ACC000239
FILE #8451

6.2 Dealing with the Company. Each Manager and any of its Affiliates shall have the right to contract or otherwise deal with the Company for the rendition of services and other purposes, and to receive payments and fees from the Company in connection therewith as the Managers shall determine; provided that: (a) such payments or fees, other than those specifically covered in Section 6.1, are comparable to the payments or fees that would be paid to unrelated Persons providing the same property, goods or services to the Company; (b) such agreements are terminable upon sixty (60) days' notice, without penalty; and (c) all such agreements are fully disclosed to the Managers prior to their effectiveness. A Manager may provide accounting and other administrative services to the Company and in such event shall be reimbursed for the cost of providing such services, provided that such cost shall not exceed the prevailing rate or cost for such services in the Phoenix, Arizona metropolitan area.

ARTICLE VII **BOOKS AND RECORDS**

The Company shall maintain and preserve at its office all accounts, books, and other relevant Company documents as may be required to be maintained under the Act or the Code. Each Member shall have the right, during ordinary business hours, to inspect and copy such Company documents at the Member's expense.

ARTICLE VIII **ASSIGNMENT OF INTERESTS IN THE COMPANY**

8.1 General. No Member shall sell, assign, pledge, hypothecate, encumber or otherwise voluntarily transfer by any means whatever ("Transfer"), either directly or indirectly, all or any portion of its interest in the Company without the consent of the Managers, which consent may be withheld in the sole and absolute discretion of each Manager. A transferee or a Member's interest in the Company will be admitted as a Substituted Member only pursuant to Section 8.3. Any purported Transfer which does not comply with the provisions of this Article 8 shall be void and shall not cause or constitute dissolution of the Company; provided, however, that this Section 8.1 shall not be construed to prohibit any Transfers between or among existing Members of the Company.

8.2 Assignee of Member's Interest. If, pursuant to a Transfer of an interest in the Company by operation of law and without violation of this Article VIII (or pursuant to a Transfer that the Company is required to recognize notwithstanding any contrary provisions of this Agreement), a Person acquires an interest in the Company, but is not admitted as a Substituted Member pursuant to Section 8.3, such Person shall be entitled to receive distributions and allocations with respect to such interest as set forth in this Agreement, including Section 8.4, but shall have no right to any information or accounting of the affairs of the Company, shall not be entitled to inspect the books or records of the Company, and shall not be entitled to any of the rights of a Manager or a Member under the Act or this Agreement.

8.3 Substituted Members. Except as provided in Section 8.1 above, no Person taking or acquiring, by whatever means, the interest of any Member in the Company shall be admitted as a Substituted Member without the written consent of the Managers, which consent may be withheld

ACC000240
FILE #8451

in the sole and absolute discretion of each Manager. In addition, such Person shall satisfy the following requirements:

(a) Elect to become a Substituted Member by delivering notice of such election to the Company;

(b) Execute, acknowledge and deliver to the Company such other instruments as the Managers may reasonably deem necessary or advisable to effect the admission of such Person as a Substituted Member, including, without limitation, the written acceptance and adoption by such Person of the provisions of this Agreement; and

(c) Pay a transfer fee to the Company in an amount sufficient to cover all reasonable expenses connected with the admission of such Person as a Substituted Member.

The Members shall amend this Agreement and the Articles of Organization (to the extent required by law) from time to time to reflect the admission of any Substituted Members.

8.4 Distributions and Allocations in Respect to Transferred Interests. If any interest in the Company is transferred during any accounting period in compliance with the provisions of this Article VIII, Profits, Losses, each item thereof and all other items attributable to such interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Managers. All distributions on or before the date of such Transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

8.5 Right of First Refusal. If any Member should receive a bona fide offer to purchase all or any portion of such Member's Company interest (either directly or through the sale of greater than fifty percent (50%) of the equity of such Member, if such Member is an entity), which such Member desires to accept, such Member shall first notify the other Members in writing of the name and address of the offeror and the price and terms of the offer (and forward a complete copy of said offer to each other Member). The other Members shall then have the right, for a period of thirty (30) days following the receipt of such notice, to purchase said interest, or the portion involved in the offer, for the same price and on the same terms as contained in the notice, net of any commission agreed to be paid in connection with said offer. If more than one Member elects to purchase the offered interest, then those Members shall purchase the offered interest in the same proportion as their Percentage Interests bear to one another, or in such other proportion as the purchasing Members agree. If no other Member timely elects to purchase the offered interest during the applicable thirty (30) day period, the interest may then be sold and assigned to the offeror, but only for the price and on the terms contained in the notice to the other Members. If the sale and assignment to the offeror is not be concluded within sixty (60) days following the expiration of the initial thirty (30) day period given to the other Members, no sale or assignment shall be made without again affording the other Members the right to purchase as hereinabove provided.

ARTICLE IX
DISSOLUTION AND TERMINATION

9.1 Dissolution. The Company shall dissolve upon the first to occur of the following:

- (a) The written agreement of the Managers to dissolve the Company;
- (b) The sale of all of the Company's property and the collection and distribution of all proceeds therefrom;
- (c) The entry of a decree of dissolution under Section 29-785 of the Act; or
- (d) Upon an Event of Withdrawal with respect to the last remaining Member. Except as provided in this Section 9.1(d), the Company shall not dissolve upon the occurrence of an Event of Withdrawal with respect to any Member or Manager, but shall instead continue its business without interruption until subsequently dissolved as provided in this Section 9.1.

9.2 Winding Up.

(a) Notice of Winding Up. Following the dissolution of the Company, as provided in Section 9.1, the Managers shall execute and file a notice of winding up with the Arizona Corporation Commission.

(b) Effect of Filing. After the dissolution of the Company, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until articles of termination have been filed with the Arizona Corporation Commission or until a decree dissolving the Company has been entered by a court of competent jurisdiction.

9.3 Liquidation.

(a) Upon dissolution of the Company, the affairs of the Company shall be wound up and all of its debts and liabilities discharged in the order of priority as provided by law. Any gain or loss on disposition of Company properties in the process of liquidation shall be allocated to the Members in the manner set forth in Article IV. The fair market value of any property to be distributed in kind shall then be determined by an independent appraiser selected by the Managers. The difference between the value of property to be distributed in kind and its book value shall be treated as a gain or loss on the sale of the property and shall be allocated to the Members in the manner set forth in Article IV. The proceeds from liquidation of the Company assets shall be applied as follows:

- (i) Payment to creditors of the Company, other than Members, in the order of priority provided by law, including establishment of any necessary reserves.
- (ii) Payment of Member Loans, if any, made to the Company.
- (iii) To the Members in accordance with Section 4.1(b) through (d).

(b) The winding up of the affairs of the Company and the distribution of its assets shall be conducted by the Managers, who are hereby authorized to do all acts authorized by law for these purposes. Without limiting the generality of the foregoing, the Managers, in carrying out such winding up and distribution, shall have full power and authority, in their discretion, to sell all or any of the Company assets, or to distribute the same in kind to the Members (and the proportion of such share that is received may vary from Member to Member), and may purchase any Company assets for the fair market value thereof, as determined pursuant to Section 9.3(a) above. Any assets distributed in kind shall be subject to all agreements relating thereto which shall survive the termination of the Company.

9.4 Articles of Termination. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Members, articles of termination shall be executed and filed with the Arizona Corporation Commission by the Managers.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 Notices. Any written notice, offer, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given for all purposes if delivered personally to the party to whom the same is directed or if sent by certified mail, return receipt requested, addressed to each Manager's and Member's address as set forth on Exhibit A. Any such notice that is sent by certified mail, return receipt requested, shall be deemed to be given two (2) days after the date on which the same is mailed. Otherwise, such notice shall be deemed given upon receipt. Any Manager or Member may change its address for purposes of this Agreement by giving written notice of such change to the other Managers and Members.

10.2 Article and Section Headings. The Article and Section headings in this Agreement are inserted for convenience and identification only and are in no way intended to define or limit the scope, extent or intent of this Agreement or any of the provisions hereof.

10.3 Construction. Whenever the singular number is used herein, the same shall include the plural; and the neuter, masculine and feminine genders shall include each other. If any language is stricken or deleted from this Agreement, such language shall be deemed never to have appeared herein and no other implication shall be drawn therefrom.

10.4 Severability. If any covenant, condition, term or provision of this Agreement is illegal, or if the application thereof to any person or in any circumstance shall to any extent be judicially determined to be invalid or unenforceable, the remainder of this Agreement, or the application of such covenant, condition, term or provision to persons or in circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby, and each covenant, condition, term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

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10.5 Governing Law. This Agreement shall be construed and enforced in accordance with, and governed by, Arizona law.

10.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall, for all purposes, be deemed an original and all of such counterparts, taken together, shall constitute one and the same Agreement.

10.7 Entire Agreement; Amendments. This Agreement constitutes the entire agreement of the parties. All prior agreements among the parties, whether written or oral, are merged herein and shall be of no force or effect. This Agreement may only be amended by a written instrument signed by all of the Managers and all of the Members.

10.8 Further Assurances. The Members will execute and deliver such further instruments and do such further acts and things as may be required to carry out the intent and purposes of this Agreement.

10.9 Successors and Assigns. Except as otherwise provided in this Agreement, every covenant, term and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective heirs, legatees, legal representatives, successors, transferees and assigns; provided that this Section 10.9 shall not be deemed to: (a) authorize any Transfer not otherwise permitted under this Agreement; (b) confer upon the assignee of a Member's interest any rights not specifically granted under this Agreement; or (c) supersede or modify in any manner any provision of Section 8.

10.10 Waiver of Action for Partition. Each Member irrevocably waives any right it may have to maintain any action for partition with respect to any of the Company's assets.

10.11 Attorneys' Fees. In the event any party to this Agreement shall be required to initiate legal proceedings to enforce performance of any term or condition of this Agreement, including, but not limited to, the payment of money or the enjoining of any action prohibited hereunder, the prevailing party shall be entitled to recover such sums, in addition to any other damages or compensation received, as will reimburse the prevailing party for reasonable attorneys' fees and court costs incurred on account thereof notwithstanding the nature of the claim or cause of action asserted by the prevailing party.

10.12 Remedies. The rights and remedies of the Members hereunder shall not be mutually exclusive, and the exercise by any Member of any right to which it is entitled shall not preclude the exercise of any other right it may have.

10.13 Tax Elections. The Managers shall cause the Company to make all elections required or permitted to be made for income tax purposes.

10.14 Representations and Warranties. Each Member represents and warrants to the Company, to each Manager and to each other Member that:

ACC000244
FILE #8451

(a) It has acquired its interest in the Company for its own account, for investment, and not with a view to or for the resale, distribution, subdivision or fractionalization;

(b) It has no contract, undertaking, understanding, agreement or arrangement, formal or informal, with any Person to sell, transfer or pledge all or any portion of its interest in the Company and has no current plans to enter into any such contract, undertaking, understanding, agreement or arrangement;

(c) It has such business and financial experience alone, or together with its professional advisers, that it has the capacity to protect its own interests in connection with its acquisition of an interest in the Company;

(d) It has sufficient financial strength to hold the interest in the Company as an investment and bear the economic risks of that investment (including possible complete loss of such investment) for an indefinite period of time;

(e) It has been afforded the same access to the books, financial statements, records, contracts, documents and other information concerning the Company and the prospective business of the Company as has been afforded the other Members and has been afforded an opportunity to ask such questions as it has deemed necessary or desirable in order to evaluate the merits and risks of the investment contemplated herein;

(f) It has performed its own due diligence with respect to its interest in the Company and is relying on that due diligence in making this investment and it is not relying on the other Members, any of the Managers or their respective Affiliates with respect to tax, suitability or other economic considerations;

(g) This Agreement constitutes a legal, valid and binding obligation of the Member enforceable against the Member in accordance with its terms; and

(h) To the Member's knowledge, the execution, delivery and performance of this Agreement by the Member does not and will not violate, conflict with or contravene any judgment, order, decree, writ or injunction, or any law, rule, regulation, contract or agreement to which the Member is subject.

(i) Upon the later of the close of escrow for the purchase of the Property by the Company or upon 100% receipt of all equity as described in Exhibit A, Grace shall be credited with predevelopment costs plus miscellaneous operating expenses as described on Exhibit D, and all deposit money will be reimbursed to the appropriate entities. All money advanced by Grace prior to close of such escrow shall be treated as a member loan as described in Section 3.1(d).

10.15 Upon the close of escrow for the purchase of the Property by the Company and at all times thereafter, until the entire parcel is sold or the individual units are sold, only the Managers and NOT the Members shall be required to provide capital above the initial capital contributions used for acquisition equity and operating expenses as necessary to approve the project with the City of Deer Park and to pay all carrying charges required but not limited to real estate taxes, homeowner association fees, loan costs and payments, architectural fees, engineering fees, City of Deer Park

department of real estate application and processing fees that are in excess of the initial capital collected at the formation of this Company. The Managers shall be permitted to either borrow the additional capital necessary for completion of the project or the Managers may provide additional capital pro rata.

10.16 The Company will establish a checking account with all checks requiring approval by Jonathon Vento or Donald J. Zeleznak, who shall be the sole signators on the account.

10.17 Upon the close of escrow for the purchase of the Property by the Company, the Company shall be required to deposit all proceeds or excess capital in excess of the acquisition equity into an operating account. This money shall be used to obtain the approval of the City of Deer Park of the Company's development plans for the Property and to pay all carrying charges required, including but not limited to, real estate taxes, homeowner association fees, loan costs and payments, architectural fees, engineering fees, City of Deer Park department of real estate application and processing fees and all other predevelopment fees. This money shall be placed in a business checking account.

ARTICLE XI **DISCLOSURES**

11.1 Donald J. Zeleznak hereby disclosed that he is: (a) a licensed real estate broker in the State of Arizona; (b) a manager of Grace; and (c) a member of Zeltor, which is a Member and Manager of the Company and member of Grace. Upon the close of escrow for the purchase of the Property by the Company, Donald J. Zeleznak, PLC, licensed with Keller Williams Southwest Realty, shall be entitled to a real estate brokerage commission as representative of the Company, as the buyer of the Property. Also, after the close of such escrow, the Company shall enter into a Development Agreement and a Construction Management Agreement with Grace and an agreement with Vento to manage the design, approval, and development of the Property and the general business of the Company.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first above written.

VENTO INVESTMENTS, LLC, an Arizona
limited liability company, Manager and Member

By: _____
Jonathon Vento, Member

ZELTOR, LLC, a Nevada limited liability
company, Manager and Member

By: _____
Donald J. Zeleznak, Member

RJZ ASSOCIATES, LLC, an Arizona limited
liability company, Member

By: _____
Ryan Zeleznak, Member

ACC000247
FILE #8451

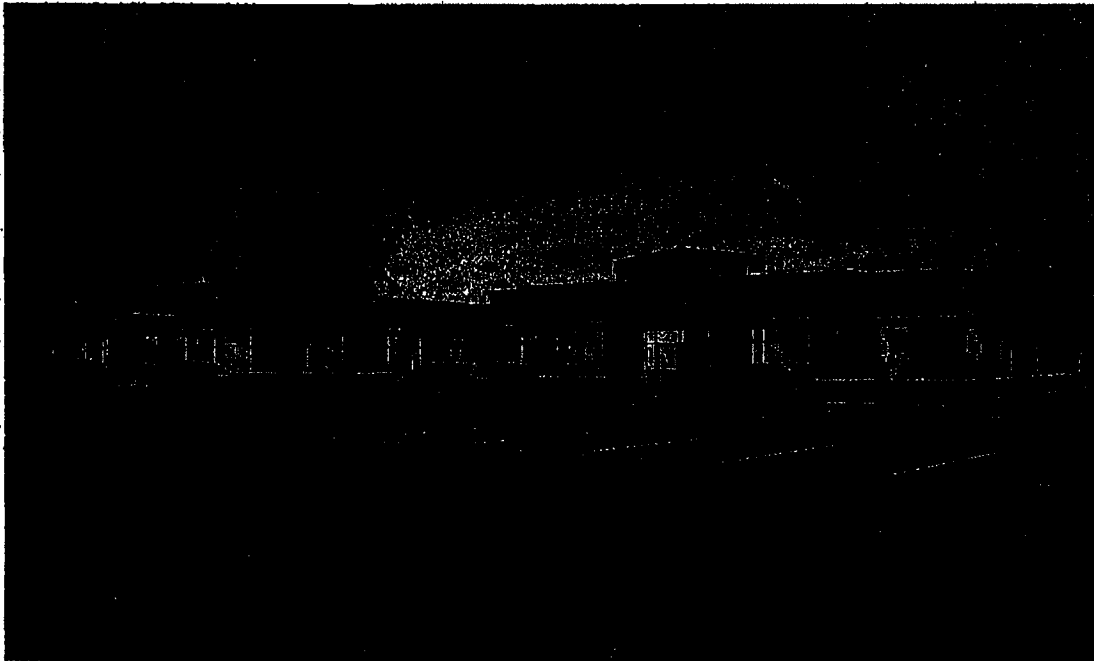
EXHIBIT A

<u>Managers' and Members' Names and Addresses</u>	<u>Initial Capital Contribution</u>	<u>Percentage Interest</u>
Zeltor, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$45	27%
Vento Investments, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$45	27%
RJZ Associates, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$10	6%
Investors	\$1,840,000	40%
Total	\$1,840,100	100%

Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS

A Commercial Condominium Development
In Romeoville, Illinois

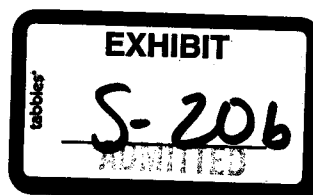


Exclusively Presented
by
Grace Communities

Grace Communities
9500 East Ironwood Square Drive
Scottsdale Arizona 85258



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Table of Contents

- I. Introduction*
- II. Project Overview / Financial Summary*
- III. Entitlements*
- IV. Consultant Team*
- V. Project Timeline - Estimated*
- VI. Area Map*
- VII. Aerial Photograph*
- VIII. Proforma*
- IV. Disclaimer*
- X. Membership Interest Subscription Agreement*
- XI. Operating Agreement of Romeoville Office Investors, LLC*
- XII. Request for Taxpayer Identification Number (W-9)*
- XII. Wiring Instructions*

Romeoville Office Investors, LLC
9500 East Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258 480.767.5245

2206

RISK ANALYSIS

This package is intended for sophisticated real estate investors. This is a highly speculative real estate development project and should only be made by persons who can afford to lose their entire investment. Some of the risk factors include no assurance of profitability, a downturn in the commercial real estate market, inability to secure acquisition or construction financing, unforeseen competition and the need for additional capital. We recommend that Investors consult legal, accounting and financial planning advice prior to investing.

The Investor is aware that any renderings depicting individual units, site plans and square footage are all conceptual in nature and may change in the future. Grace Communities reserves the right to modify the interior and exterior design, specifications, location, size, design features and pricing of each unit.

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2

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Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS

Project Overview

Grace Communities is pleased to announce the development of the Romeoville Office Condominiums located in the beautiful Village of Romeoville, IL. One of

Romeoville's greatest assets is its location. It sits just 25 miles southwest of Chicago with easy access to I-55, Rt. 53, I-355 and Weber Road - which has become one of the fastest growing commercial corridors in Will County. Proposed for this project is over 50,000 square feet of office condo space.

Financial Summary

	<u>Total</u>	<u>Per NSF</u>
Net Revenue	\$ 8,410,000	\$ 168.20
Total Project Costs	\$ (6,773,000)	\$ (135.46)
Total Project Profit	\$ 1,637,000	\$ 32.74
Equity Invested	\$ 1,973,000	\$ 39.46
Equity Partner Profit 40%	\$ 655,000	\$ 13.10
Investor Cash on Cash Return	33%	

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Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS

Entitlements

This project is zoned and has received City of Romeoville approval for the use as an office project.
The architectural design is currently being approved by the city.

Consultant Team

Developer:	Grace Communities	Scottsdale, AZ
Design & Layout:	Grace Communities	Scottsdale, AZ
Architect:	Monarch Design & Construction	St. Charles, IL
Sales Agent:	Real Estate Consultants, Inc.	Lombard, IL
Contractor:	Monarch Design & Construction	St. Charles, IL

Project Timeline - Estimated

September 2006	Investor Funds Due
September 2006	Submit Building Permit
October 2006	Land Closing
November 2006	Construction Starts / Receive Permit
May 2007	Substantial Completion

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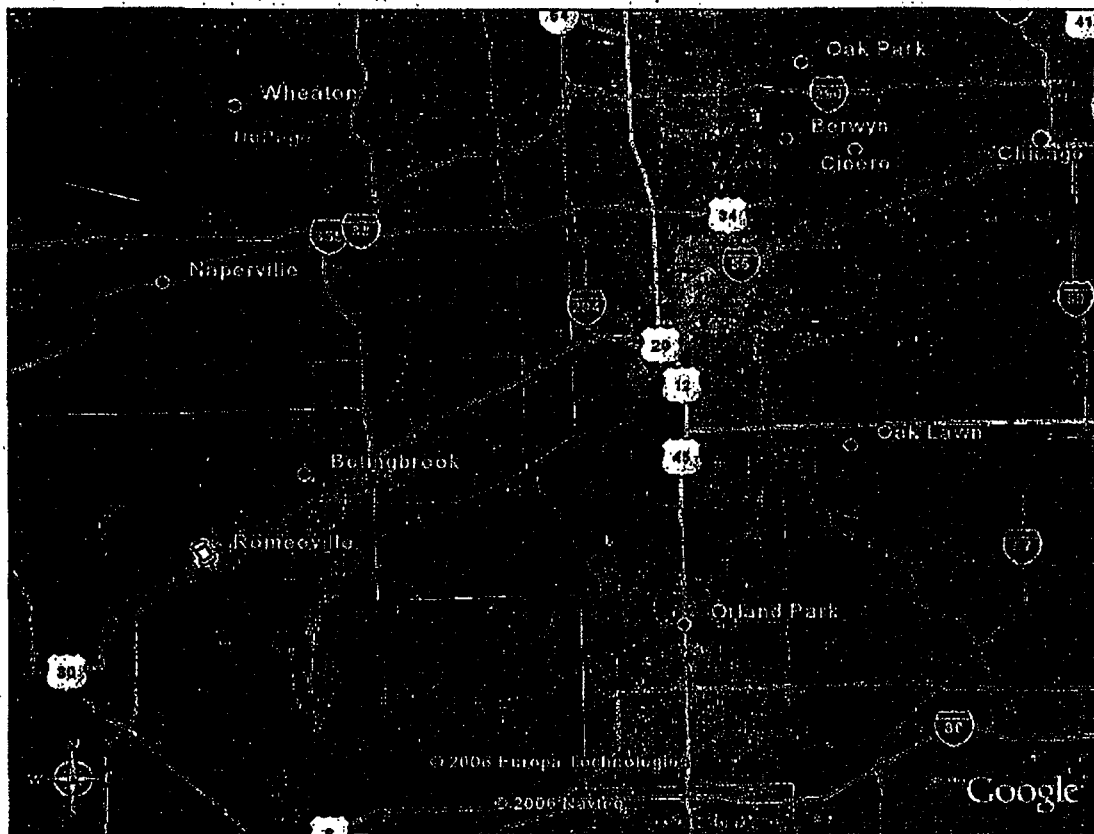
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Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS



Area Map

Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS



Aerial Photograph

Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS

Project Data

Land Area: 4.4 Acres
 Land Cost psf of Land Area: \$ 14.00 /sf
 Building Square Feet: 50,000 GSF
 Coverage: 26%

Development Proforma

Land Cost	\$ 2,683,296	\$ 53.67
Approval Soft Cost	\$ -	\$ -
Total Land Cost	\$ 2,683,296	\$ 53.67
Building & Site Cost	\$ 3,000,000	\$ 60.00
Interest Carry 8.00%	\$ 249,600	\$ 4.99
Architectural Design	\$ 15,000	\$ 0.30
Engineering Design	\$ 15,000	\$ 0.30
Design Review Fees	\$ 10,000	\$ 0.20
Legal	\$ 10,000	\$ 0.20
Real Estate Taxes	\$ 20,000	\$ 0.40
Developer Fee	\$ 250,000	\$ 5.00
Signage	\$ 25,000	\$ 0.50
Miscellaneous	\$ 50,000	\$ 1.00
Contingency	\$ 100,000	\$ 2.00
Marketing	\$ 15,000	\$ 0.30
Site Maintenance	\$ 15,000	\$ 0.30
Utility Connection Fees	\$ 50,000	\$ 1.00
Plan Review Fees	\$ 20,000	\$ 0.40
Permit Fees	\$ 50,000	\$ 1.00
Construction Management Fees	\$ 100,000	\$ 2.00
Insurance	\$ 20,000	\$ 0.40
Construction Finance Fees	\$ 50,000	\$ 1.00
Other Consultants	\$ 20,000	\$ 0.40
Accounting	\$ 5,000	\$ 0.10
Total Construction Cost	\$ 4,089,600	\$ 81.79
Total Project Costs	\$ 6,772,896	\$ 135.46

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7

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Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS

Building Sales Analysis

Building Sales		\$	9,000,000	\$	180.00
Sales Commissions	6.0%	\$	(540,000)	\$	(10.80)
Closing Costs	(10 Closings)	\$	(50,000)	\$	(1.00)
Net Revenue		\$	8,410,000	\$	168.20

Financing & Investment Analysis

Total Loan Amount		\$	4,800,000		
			71%		
Equity		\$	1,972,896		
Total Project Profit		\$	1,637,104	\$	32.74
Grace Profit	60%	\$	982,262		
Equity Partner Profit	40%	\$	654,842		

33% Equity Cash on Cash Return

Anticipated 12 - 18 Month Project Schedule

Romeoville Office Investors, LLC

OFFICE CONDOMINIUMS

Disclaimer:

In Romeoville, Illinois

This financial proforma is intended to be reviewed in its entirety. Portions of this financial proforma may lead to inaccurate assumptions when not viewed in the context of the entire proforma.

This financial proforma has been prepared by Grace Communities, based entirely on assumptions provided by the developer. Neither Grace Communities, its affiliates, or individuals involved in completing this financial proforma guarantees the accuracy of these assumptions, or the results projected from these assumptions in this financial proforma. This financial proforma is submitted for use by the developer, investors, and potential lenders as they see fit, and is subject to errors and omissions.

Other entities have made preliminary estimates of the development costs. The design of the project is now being revised and detailed. The development costs and schedule will be updated continuously over the life of the project. Neither Grace Communities, its affiliates, or the other entities guaranty the accuracy of the preliminary development costs or the results projected from these assumptions in this financial proforma.

SUBSCRIPTION AND COUNTERPART SIGNATURE PAGE
FOR MEMBERSHIP INTERESTS

ROMEOVILLE OFFICE INVESTORS, LLC

February 14, 2006

Donald J. Zeleznak
Jonathon Vento
Romeoville Office Investors, LLC

Arizona

Mr. Zeleznak & Mr. Vento:

I _____ am forwarding this letter in connection with my acquisition of _____% membership interests in Romeoville Office Investors, LLC an Arizona limited liability company (the "Company") at a purchase price of _____ and 00/100 Dollars \$ _____.

You have informed me that the Interests will not be registered pursuant to the Securities Act of 1933, as amended (the "Act"), or under Arizona or any other state's securities laws based upon your belief that the Interests are not "securities" as defined under the Act, or even if so defined, the sale to me qualifies for an exemption from the registration requirements of said federal and state securities laws. You have further advised me that you are relying in part on my representations and warranties as set forth in this letter for purposes of proceeding in this matter and if necessary, claiming such interpretations and exemptions.

Accordingly, I hereby represent and warrant to the Company as follows:

(a) I am aware and understand that the Company has been formed solely to purchase, develop and sell commercial real estate known as "Romeoville", it sits just 25 miles southwest of Chicago with easy access to I-55, Rt. 53, I-355 and Weber road in Will, county. Any funds contributed by Members in excess of the pre-development for Romeoville Office Investors, LLC will be returned to subscribers in proportion to the percentage of the total capital contributions by such subscriber (therefore causing the Percentage Interests of all Members to remain the same);

(b) I understand that my acquisition of the Interests is a speculative investment involving a high degree of risk, including without limitation, any and all risks associated with an investment in commercial real estate.

(c) I have received and reviewed copies of the Operating Agreement for Romeoville Office Investors, LLC ("The Operating Agreement") as well as the proforma

2215

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for Romeoville Office Investors, LLC and have examined such other documents and made such other inquiries as I deemed appropriate to verify for myself any statements made to me concerning the acquisition of the Interests and the Company's acquisition of Romeoville parcel.

(d) Other than the limited Distribution Rights set forth in the Operating Agreement, I acknowledge that I may have to hold my investment indefinitely and may not be able to liquidate my investment in the Interests, even in the event of a financial emergency. Moreover, I understand that my Distribution Rights under the Operating Agreement are subject to the ability of the Company to sell all or significantly all of the property, including buildings being constructed.

(e) I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of my investment in the interests;

(f) I hereby represent that I have a net worth sufficient to bear the economic risk of losing my entire investment in the Company without impairing my ability to provide for my support and support of those dependant on me;

(g) I acknowledge that I have a pre-existing personal or business relationship with Donald Zeleznak and Jonathon Vento, the "Managing Members" of the Company;

(h) I am acquiring the Interests solely for my own account, for investment, and not with a view to, or for, the resale, distribution, subdivision or fractionalization thereof, and I have no present plans to enter into any contract, undertaking, agreement or arrangement for any such resale, distribution, subdivision or fractionalization thereof;

(i) I have independently evaluated and understand the federal income tax aspects of my investment in the Company, and have received such advice in this regard as I deem necessary from sources that I deem qualified. In particular, I acknowledge and agree that the Company will, pursuant to Section 1.761-2 of the Treasurer Regulations promulgated under the Internal Revenue Code, as amended, elect to have the Company included from Subchapter K of the Internal Revenue Code. As a result, I will receive a K-1 but I will be individually responsible for accounting for and reporting to the Internal Revenue Service my taxable gain, loss or income relating to my contributions to and distributions for the Company regarding my Interests;

(j) I acknowledge that neither the principals of the Company nor any other persons have ever represented, warranted or guaranteed, expressly or by implication:

- (1) the approximate or exact length of time that I will be required to remain a Member of the Company; and
- (2) the percentage of profit and/or amount of, or type of, consideration, profit or loss (including tax write-offs and/or tax benefits) to be realized, if any, as a result of my investment in the Company.

2216

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Without in any way limiting my warranties and representations as set forth herein, I further agree that I shall in no event pledge, hypothecate, sell or transfer the interests other than in compliance with the Operating Agreement.

The warranties and representations contained in this investment letter shall be binding upon my heirs and legal representatives and shall insure to the benefit of the Corporation's success and assigns and your successors and assigns.

I hereby acknowledge that I understand the meaning and legal consequences of the warranties and representations contained above, and I hereby agree to indemnify and hold harmless the Company and each other Member and the Administrator of the Company from and against any and all loss, damage or liability arising from or relating to any breach of any representation or warranty contained in this investment letter.

I hereby acknowledge and agree that this shall constitute my signature page to the Operating Agreement and by my signature below, I agree to be bound by all terms and conditions set forth therein.

Individual Member Signature:

Entity Member Signature:

Signature of individual Member

Print Name of Entity Member

Print Name of individual Member

By: _____
Signature

Its: _____
Please indicate capacity

Signature of Joint Owner, if applicable

Print Address

Print Name of Joint Owner, if applicable

Print Address

SS# or Tax ID #

Phone #

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Date Accepted: _____

Notary for Individual Subscriber:

STATE OF _____)
County of _____) ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by _____.

Notary Public

My Commission Expires:

Notary of Entity Subscriber:

STATE OF _____)
County of _____) ss:

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____, as _____ of _____.

Notary Public

My Commission Expires:

2218

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DRAFT

**OPERATING AGREEMENT
OF
ROMEOTVILLE OFFICE INVESTORS, LLC**

This Operating Agreement is entered into effective as of this ____ day of August, 2006, by and among Vento Investments, LLC, an Arizona limited liability company ("Vento"), and Zeltor, LLC, a Nevada limited liability company ("Zeltor"), as the Managers and as Members, and RJZ Associates, LLC, an Arizona limited liability company, as a Member, and such other persons who may become Members by executing Subscription Agreements or other appropriate documents that are accepted by the Company, and making their initial Capital Contributions, as Members of Romeoville Office Investors, LLC.

**ARTICLE I
THE COMPANY: GENERAL PROVISIONS**

1.1 Formation. The parties have formed the Company as a limited liability company pursuant to the provisions of the Act and upon the terms and conditions set forth in this Agreement and the Articles of Organization. Capitalized terms and phrases used in this Agreement shall have the meanings given those terms in Article II below. The names and addresses of the Members and the Managers are set forth on Exhibit A.

1.2 Name. The name of the Company is Romeoville Office Investors, LLC.

1.3 Purpose. The purposes of the Company and the general character of its business are to: (a) acquire that certain parcel of real property located in Aurora, Illinois, and more particularly described on Exhibit B (the "Property"); (b) own, develop, operate, lease, finance, refinance, market and sell the Property; and (c) engage in any activities necessary, incidental or related to the foregoing purposes. The Company shall be a limited liability company only for the purposes specified in this Section 1.3 (the "Permitted Activities"). The Company shall not engage in any activity or business other than the Permitted Activities, and no Manager or Member shall have any authority to hold itself out as a general agent of any other Manager or Member in any other business or activity.

1.4 Intent. It is the intent of the Managers and the Members that the Company shall always be operated in a manner consistent with its treatment as a "partnership" for federal and state income tax purposes. The Company is not a "partnership" for purposes of the Arizona Uniform Partnership Act or a "limited partnership" for purposes of the Arizona Uniform Limited Partnership Act, and the Members are not partners. It is also the intent of the Managers and the Members that the Company not be operated or treated as a "partnership" for purposes of Section 303 of the Federal Bankruptcy Code.

1.5 Office. The registered office of the Company within the State of Arizona is 9500 E. Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258. The Managers may change the

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ARTICLE II

DEFINITIONS

Unless otherwise expressly provided herein or unless the context otherwise requires, the terms and phrases with initial capital letters used in this Agreement shall be defined as follows:

"Act" means the Arizona Limited Liability Company Act, as set forth in Arizona Revised Statutes § 29-601 et. seq., as amended from time to time.

"Adjusted Capital Account Balance" means an amount with respect to any Member equal to the balance in such Member's Capital Account at the end of the relevant fiscal year, after increasing the balance in such Member's Capital Account by any amount which such Member is deemed to be obligated to restore pursuant to Regulations §§ 1.704-2(g) (1) and 1.704-2(i) (5).

"Affiliate(s)" of a Person means: (a) any Person directly or indirectly owning, controlling or holding with power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (b) any Person ten percent (10%) or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by the Person in question; (c) any Person directly or indirectly controlling, controlled by or under common control with the Person in question; (d) any officer, director, member, or partner of the Person in question; and (e) if the Person in question is an officer, director, member or partner, any company for which such Person acts in any such capacity.

"Agreement" means this Operating Agreement, as amended from time to time. Words such as "herein," "hereinafter," "hereof" and "hereunder," refer to this Agreement as a whole, unless the context otherwise requires.

"Articles of Organization" means the Articles of Organization of the Company filed with the Arizona Corporation Commission on March 21, 2006, as amended from time to time.

"Book Value" has the meaning given that term in Section 4.3(b).

"Capital Account" means, with respect to each Member, the Capital Account maintained for such Member in accordance with Section 4.6.

"Capital Contributions" means the amount of cash and the net fair market value of any property contributed by each Member to the Company pursuant to Article III, but shall not include amounts paid to any Person with respect to any assignment of any interest in the Company or any substitution of a Member.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Company" means the limited liability company formed pursuant to the Articles of Organization and any limited liability company continuing the business of this Company in the event of dissolution as herein provided.

"Event of Withdrawal" means an event listed in Section 29-733 of the Act.

"Grace" means Grace Capital, LLC, an Arizona limited liability company.

"Independent Activities" has the meaning given that term in Section 1.8(a).

"Manager" means each of Vento and Zeltor or any Person appointed to act as a successor Manager in accordance with the terms of this Agreement and designated as such in an amendment to the Articles of Organization.

"Member Loan" has the meaning given that term in Section 3.1(d).

"Member" means any Person identified as a Member in the heading to this Agreement. If any Person is admitted as a Substituted Member pursuant to the terms of this Agreement, "Member" shall be deemed to refer to such Person.

"Net Cash Flow" means the gross cash proceeds to the Company from all sources less the portion thereof used to pay or establish reserves for Company expenses, debt payments, capital improvements, replacements and contingencies, all as reasonably determined by the Managers.

"Percentage Interest" means a Member's interest, expressed as a percentage, in Profits, Losses, and distributions of the Company as provided for in this Agreement. The Members' Percentage Interests are set forth opposite their names on Exhibit A.

"Permitted Activities" has the meaning given that term in Section 1.3.

"Person" means any natural person, partnership, joint venture, limited liability company, corporation, estate, trust, association or other legal entity.

"Profits" and "Losses" mean, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a), upon consultation with the Company's accountants or legal counsel, to comply with relevant Regulations.

"Property" has the meaning given that term in Section 1.3.

"Recipient Member" has the meaning given that term in Section 4.2(a).

"Regulations" shall mean the Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time.

"Substituted Member" means any Person admitted to the Company as a Member pursuant to Section 8.3.

"Tax Advances" has the meaning given that term in Section 4.2(a).

"Tax Amount" means an amount with respect to each Member (which may be a positive or negative number), determined on a yearly basis, equal to (a) the combined maximum Arizona and federal income tax rates applicable to individuals for the period with respect to which the Tax Amount is being determined, multiplied by (b) such Member's "net income" or "net loss" for the year with respect to which the Member's Tax Amount is being determined. Each Member's Tax Amount shall be determined on an estimated basis, taking into account the best information available to the Managers, but shall be subject to reconciliation annually at the time the Company's federal income tax returns are filed. For purposes of this definition, "net income" means the amount, if any, by which the items of income and gain allocated to a Member for a year exceed the items of loss and deduction allocated to that Member for such year, and "net loss" means the amount, if any, by which the items of loss and deduction allocated to a Member for a year exceed the items of income and gain allocated to that Member for such year.

"Transfer" has the meaning given that term in Section 8.1.

"Unfunded Tax Amount" means, with respect to each Member, the excess, if any, of: (a) the sum of such Member's Tax Amounts for the entire term of the Company, over (b) the sum of: (i) all amounts previously distributed to such Member pursuant to Section 4.1; and (ii) the portion of such Member's Tax Advances (if any) that have not been offset by distributions withheld under Section 4.2(b).

"Unreturned Capital Contributions" means, with respect to each Member, such Member's total Capital Contributions less distributions previously received by the Member pursuant to Section 4.1(c).

ARTICLE III CAPITAL CONTRIBUTIONS AND RELATED MATTERS

3.1 Initial Capital Contributions; Additional Capital Contributions; Initial Capital Account Credits and Percentage Interests; Member Loans.

(a) Initial Capital Contributions. Concurrently with the execution of this Agreement by the Managers and all of the Members, each Member shall contribute to the Company the amount of cash set forth opposite such Member's name on Exhibit A.

(b) Initial Capital Account Credits and Percentage Interests. In conjunction with the foregoing contributions, each Member shall receive a Capital Account credit and Percentage Interest in the Company as set forth on Exhibit A.

(c) Additional Capital. Except as provided in Section 3.1(a) above and Section 4.2(b) below, no Member shall be required to make any Capital Contributions to the Company unless such Member agrees in writing to do so.

(d) Member Loans. Any Member may, with the written consent of the Managers, make a loan (a "Member Loan") to the Company, solely to further the business of the Company. Member Loans shall bear interest at a rate equal to the cost of borrowed funds to the Member making the Member Loan plus three percent (3%) per annum, and shall be repaid on such reasonable terms and conditions as may be approved by the Managers. No Member shall be required to make a Member Loan unless such Member has agreed in writing to do so. Member Loans shall be liabilities of the Company and, unless otherwise agreed by the Managers and the lending Member, shall be paid from Net Cash Flow prior to any distributions to the Members.

(e) No Creditor Rights or Third Party Beneficiaries. The provisions of this Section 3.1 are solely for the benefit of the Members, and no provision of this Agreement is (or shall be deemed to be) for the benefit of or enforceable by any creditor, contractor or subcontractor of the Company or any Member, and no creditor of the Company will be entitled to require any Manager or any Member to solicit or demand Capital Contributions or Member Loans from any other Member.

3.2 Limitations Pertaining to Capital Contributions.

(a) Return of Capital. Except as otherwise provided in this Agreement, no Member shall withdraw any Capital Contributions or any money or other property from the Company without the written consent of the Managers. Under circumstances requiring a return of any Capital Contributions, no Member shall have the right to receive property other than cash, unless otherwise specifically agreed in writing by the Managers at the time of such distribution. No Member shall have priority over any other Member as to return of Capital Contributions, allocations of income, gain, losses, credits, deductions, or as to distributions, except as otherwise specifically provided in this Agreement.

(b) Liability of Members. Except as agreed upon in writing, no Manager or Member shall be personally liable for the debts, liabilities, contracts or any other obligations of the Company. Except as agreed upon by the Members, and except as otherwise provided by Section 29-651 of the Act or by any other applicable state law, the Members shall be liable only to make the Capital Contributions as provided in Section 3.1(a) above and Section 4.2(b) below, and shall not be required to make any other Capital Contributions or loans to the Company. Unless otherwise provided under the Act or other applicable state law, no Manager or Member shall have any personal liability for the repayment of the Capital Contributions or Member Loans of any other Member.

(c) No Interest, Salary or Reimbursement. Except as specifically provided in this Agreement or otherwise agreed by the Members, no Member shall receive any interest, salary or drawing with respect to such Member's Capital Contributions or Capital Account.

(d) Withdrawal. Except as provided in Article VIII, no Member may voluntarily or involuntarily withdraw from the Company or terminate its interest in the Company without the prior written consent of the Managers. Any Member which withdraws from the

Company in breach of this Section 3.2(d), or any Member with respect to which an Event of Withdrawal occurs:

- (i) shall be an assignee of a Member's interest, as provided in the Act;
- (ii) shall have no right to participate in the business and affairs of the Company or to exercise any rights of a Member under this Agreement or the Act; and
- (iii) shall continue to share in Company distributions, on the same basis as if it had not withdrawn (or as if the Event of Withdrawal had not occurred), provided that any damages to the Company as a result of such withdrawal (or Event of Withdrawal) shall be offset against amounts that would otherwise be distributed to such Member.

ARTICLE IV
ALLOCATION OF DISTRIBUTIONS, PROFITS, LOSSES
AND OTHER ITEMS AMONG THE MEMBERS

4.1 Net Cash Flow. The Company's Net Cash Flow shall be distributed from time to time as determined by the Managers, in the following order of priority:

- (a) First, to make Tax Advances to the Members, if and to the extent required under Section 4.2;
- (b) Second, to repay all Member Loans in full;
- (c) Third, to the Members in proportion to their respective Unreturned Capital Contributions, until the Unreturned Capital Contributions of all of the Members have been reduced to zero; and
- (d) Fourth, the balance, if any, to the Members in proportion to their Percentage Interests.

4.2 Tax Advances.

(a) Requirement to Make Tax Advances. Prior to making any distributions of Net Cash Flow pursuant to Section 4.1, the Managers shall determine the extent to which any Member would have an Unfunded Tax Amount if the Net Cash Flow were distributed in accordance with Sections 4.1(b) through 4.1(d) above. If any Members would have Unfunded Tax Amounts under the circumstances described in the preceding sentence, the Company shall make advances ("Tax Advances") to such Members ("Recipient Members"), in proportion to their respective Unfunded Tax Amounts, until all Members' Unfunded Tax Amounts have been reduced to zero.

(b) Repayment of Tax Advances. Tax Advances shall be recovered by the Company from a Recipient Member by withholding any amounts otherwise distributable to the

Recipient Member pursuant to Sections 4.1(b) through 4.1(d), until the amounts withheld are equal to the total Tax Advances made to the Recipient Member. Amounts withheld under the preceding sentence: (i) shall be deemed to have been distributed to the Recipient Member for purposes of determining the Recipient Member's right to share in future distributions under this Agreement; and (ii) shall be added to the Net Cash Flow and applied in accordance with the priorities in Section 4.1. If, upon liquidation of the Company, the amounts withheld under this Section 4.2(b) with respect to any Member are less than the Tax Advances received by that Member over the course of the Company's existence, then such Member shall contribute cash to the Company in an amount equal to the deficiency, which will be treated as proceeds available for distribution in accordance with Section 4.1.

4.3 General Allocation Rules.

(a) General Allocation Rule. For each taxable year of the Company, subject to the application of Section 4.4, Profits and/or Losses shall be allocated to the Members in a manner which causes each Member's Adjusted Capital Account Balance to equal the amount that would be distributed to such Member pursuant to Section 9.3(a) (iii) upon a hypothetical liquidation of the Company in accordance with Section 4.3(b).

(b) Hypothetical Liquidation Defined. In determining the amounts distributable to the Members under Section 9.3(a)(iii) upon a hypothetical liquidation, it shall be presumed that: (i) all of the Company's assets are sold at their respective values reflected on the books of account of the Company, determined in accordance with Code Section 704(b) and Regulations thereunder ("Book Value"), without further adjustment; (ii) payments to any holder of a nonrecourse debt are limited to the Book Value of the assets securing repayment of such debt; and (iii) the proceeds of such hypothetical sale are applied and distributed (without retention of reserves) in accordance with Section 9.3(a).

(c) Special Loss Allocation. If the Company incurs Losses at any time when the Members' Adjusted Capital Account Balances have been reduced to or below zero, such Losses shall be allocated to the Members in proportion to their Percentage Interests.

(d) Special Profits Allocation. If the Company incurs Profits at any time when the Members' Adjusted Capital Account Balances are less than zero and the hypothetical liquidation described in Section 4.3(b) would not result in any distributions to the Members, Profits shall be allocated to the Members in proportion to their negative Adjusted Capital Account Balances, until such negative balances have been eliminated.

(e) Item Allocations. If the Managers determine, upon consultation with the Company's tax advisors, that allocations of Profits and/or Losses over the term of the Company are not likely to produce the Adjusted Capital Account Balances intended under this Section 4.3,

then special allocations of income, gain, loss and/or deduction shall be made as deemed necessary by the Managers to achieve the intended Adjusted Capital Account Balances.

4.4 Regulatory Allocations. The allocations set forth in Section 4.3 are intended to comply with the requirements of Regulations Sections 1.704-1(b) and 1.704-2. If the Company incurs "nonrecourse deductions" or "partner nonrecourse deductions," or if there is any change in the Company's "minimum gain" or "partner nonrecourse debt minimum gain," as defined in such Regulations, the Managers shall make the following adjustments to the allocations required under this Section 4:

(a) "partner nonrecourse deductions" shall be allocated to the Member who bears the economic risk of loss associated with such deductions, determined in accordance with the Regulations; and

(b) in the event of a decrease in "minimum gain" or "partner nonrecourse debt minimum gain," items of income and gain shall be allocated to the Members in the manner and to the extent required under the Regulations to comply with any requirement for a "minimum gain chargeback" thereunder.

In addition, if a Member receives an adjustment, allocation or distribution described in Regulations Section 1.701-1(b)(2)(ii)(d)(4), (5) or (6) and as a result thereof has a negative Adjusted Capital Account Balance (after taking into account the adjustments described in the foregoing Regulations Sections), items of income and gain shall be allocated to such Member in an amount and manner sufficient to constitute a "qualified income offset" within the meaning of the Regulations.

4.5 Special Tax Allocations. The Company shall make such allocations as may reasonably be required to comply with the requirements of Code Section 704(c) and any Regulations thereunder with respect to any property contributed to the Company by any Member, using such method as is determined by the Managers, consistent with the requirements of the Regulations promulgated under Code Section 704(c). If the Book Value of any Company asset is adjusted in accordance with the Regulations under Code Section 704(b), the Company shall make allocations with respect to such asset in a manner determined by the Managers, consistent with the requirements of Regulations Section 1.704-1(b)(2)(iv)(g).

4.6 Capital Account. A Capital Account shall be maintained for each Member in accordance with the Regulations, under uniform policies and procedures established by the Managers, upon consultation with the Company's tax advisors.

4.7 Treatment of Fees. Fees payable to a Member, as provided in Article VI, shall be treated solely for tax purposes (and not for purposes of determining such Member's right to receive such fees) as "guaranteed payments" within the meaning of Code Section 707(c).

ARTICLE V MANAGEMENT OF THE COMPANY

5.1 Management of the Company.

(a) Administrative Manager – Day-to-Day Management. The day-to-day business and affairs of the Company shall be managed by the Company's "Administrative Manager". The initial Administrative Manager of the Company shall be Jonathon Vento. An Administrative Member may be removed or replaced by the affirmative vote of a majority in number of the Managers other than the Administrative Manager. If the Administrative Manager resigns, a replacement Administrative Manager may be appointed by the affirmative vote of a majority in number of the Managers other than the resigned Administrative Manager. Subject to the other terms of this Agreement, including Section 5.1(c) below, the Administrative Manager shall have the duty, responsibility and authority, of behalf of the Company, to, in accordance with each applicable Approved Budget:

- (i) negotiate and execute on behalf of the Company all instruments and documents: (1) necessary to carry out the ordinary business of the Company (including, without limitation, checks, drafts and contracts which are terminable by the Company within 30 days and without penalty); or (2) approved by the Managers;
- (ii) oversee and manage the development of the Property;
- (iii) purchase liability and other insurance to protect the Company's Property and business;
- (iv) open bank accounts in the name of the Company;
- (v) temporarily invest Company funds in short term insured accounts to the extent not required to pay the current expenses of the Company's business;
- (vi) employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;
- (vii) act as the "tax matters partner" pursuant to Code Section 6221;
- (viii) pay all expenses of the Company, including, without limitation, taxes, insurance, property management fees, legal, accounting and other professional services fees and ordinary maintenance expenses, all in accordance with each applicable Approved Budget; and
- (ix) do and perform all other acts as may be necessary or appropriate to the conduct of the day-to-day operations of the Company in accordance with each applicable Approved Budget.
- (x) execute all closing documentation necessary for the acquisition of land or for the closing of condominium units on behalf of the Managers.

(b) Budget Preparation and Approval Process.

(i) Submission of Annual Budgets. On or before June 30 of each calendar year, the Administrative Manager shall prepare and submit to the Managers a proposed budget for the Company's operations for the immediately following calendar year. (each, a "Proposed Budget"). The initial Proposed Budget for the Company's operations during the period beginning on the date of this Agreement and ending on December 31, 2006, is attached as Exhibit C (the "Initial Proposed Budget"). Before any Proposed Budget is implemented, the Managers will be required to approve the Proposed Budget as provided in Section 5.1(b) (ii) below. A proposed amendment to an Approved Budget will also require the approval of the Managers as provided in Section 5.1(b) (ii) below.

(ii) Review Period. The Managers shall have thirty (30) days within which to review a Proposed Budget (or any amendment to an Approved Budget proposed by the Administrative Manager). Unless a Manager objects in writing to the Proposed Budget (or an amendment to an Approved Budget) within such thirty (30) day period, the Proposed Budget (or amendment to an Approved Budget) shall be deemed approved by the Managers and shall be deemed an "Approved Budget" hereunder. The Initial Proposed Budget is hereby approved by the Managers and shall be an Approved Budget. Until any Proposed Budget or amendment to an Approved Budget is adopted, the existing Approved Budget will remain in effect, and the Administrative Manager will be authorized to act in accordance with the previously existing Approved Budget.

(c) Managers. Except to the extent specifically delegated to the Administrative Manager pursuant to Section 5.1(a) above, the right to manage, control and conduct the business and affairs of the Company shall be vested solely in the Managers, and all decisions regarding the operation of Company and its business and affairs shall be made by the affirmative vote of a majority in number of the Managers. The Managers shall devote such time and effort to the Company and its business as is appropriate to conduct the business of the Company in an effective manner, but shall not be required to devote full time efforts to the Company. Any vote that is deadlocked shall be resolved by Jonathon Vento casting the deciding vote. Decisions requiring the affirmative consent of the Managers shall include, but not be limited to, the following:

(i) pay or commit to pay any extraordinary expense or short term investments of the Company not authorized in an Approved Budget including but not limited to placing funds of the Company into certificate of deposits, notes, or other investments entities at marketable rates as determined by the Managers;

(ii) incur any indebtedness, commitment, obligation or liability other than as set forth in an Approved Budget;

(iii) cause the Company to enter into any agreement or contract which is not terminable by the Company within 30 days and without penalty;

(iv) sell or lease all or substantially all of the Property or acquire or sell any other real property;

(v) causing the Company to borrow money, whether secured or unsecured, from banks, other lending institutions, any Member, any Affiliate of a Member or any other source;

(vi) cause the Company to encumber or grant security interests in its assets to secure repayment of borrowed sums;

(vii) amend the Articles of Organization, except that any amendments required under the Act to correct any inaccuracy in the Articles of Organization or to reflect a change in the Members may be filed at any time by the Administrative Manager;

(viii) authorize the Company to make an assignment for the benefit of creditors of the Company, file a voluntary petition in bankruptcy or consent to the appointment of a receiver for the Company or its assets; or

(ix) take any other action requiring the consent of the Managers under the terms of this Agreement.

(d) Company Bank Accounts. The Administrative Manager shall cause the Company to open a business checking account at Union Bank, St. Charles, Illinois. The Administrative Manager shall be authorized to sign checks in the Company's name to the extent any such check is for the payment of an expense reflected in an Approved Budget.

5.2 Limitations on Liability; Indemnity. No Manager or Member, or its or their Affiliates (an "Actor"), shall be liable to the Company or to the other Managers or Members for actions taken in good faith by the Actor in connection with the Company or its business; provided that an Actor shall in all instances remain liable for acts in breach of this Agreement or which constitute bad faith, fraud, willful misconduct or gross negligence (except to the extent the Company is compensated for the same by insurance coverage maintained by the Company). The Company, its receiver or trustee shall indemnify, defend and hold harmless each Actor, to the extent of the Company's assets (without any obligation of any Member to make contributions to the Company to fulfill such indemnity), from and against any liability, damage, cost, expense, loss, claim or judgment incurred by the Actor arising out of any claim based upon acts performed or omitted to be performed by the Actor in connection with the business of the Company, including without limitation attorneys' fees and costs incurred by the Actor in the settlement or defense of such claim; provided that no Actor shall be indemnified for claims based upon acts performed or omitted in breach of this Agreement or which constitute bad faith, fraud, willful misconduct or gross negligence.

5.3 Reimbursement of Manager Expenses. Each Manager shall be entitled to reimbursement from the Company for costs incurred by it in connection with the performance of its duties hereunder, but only to the extent such expenditures are set forth in an Approved Budget.

ARTICLE VI
FEES TO THE MANAGERS,
CERTAIN MEMBERS AND THEIR AFFILIATES

6.1 Fees. The following fees shall be paid to certain Managers, certain Members and certain of their respective Affiliates:

(a) Development Fee. In connection with the development of the Property and the development of the office condominium buildings, the Company shall pay a development fee of \$250,000 (the "Development Fee") to Grace, which is owned indirectly by Vento, and by Zeltor. The Development Fee shall be payable in full on or before the acquisition of the Property.

(b) Building Construction Management Fee. In connection with the construction of the Property, the Company shall pay a building construction management fee of \$100,000 (the "Building Construction Management Fee") to Grace. The building construction management fee shall be paid in five (5) equal payments commencing with the issuance of the preliminary grading permit for the buildings.

6.2 Dealing with the Company. Each Manager and any of its Affiliates shall have the right to contract or otherwise deal with the Company for the rendition of services and other purposes, and to receive payments and fees from the Company in connection therewith as the Managers shall determine; provided that: (a) such payments or fees, other than those specifically covered in Section 6.1, are comparable to the payments or fees that would be paid to unrelated Persons providing the same property, goods or services to the Company; (b) such agreements are terminable upon sixty (60) days' notice, without penalty; and (c) all such agreements are fully disclosed to the Managers prior to their effectiveness. A Manager may provide accounting and other administrative services to the Company and in such event shall be reimbursed for the cost of providing such services, provided that such cost shall not exceed the prevailing rate or cost for such services in the Phoenix, Arizona metropolitan area.

ARTICLE VII
BOOKS AND RECORDS

The Company shall maintain and preserve at its office all accounts, books, and other relevant Company documents as may be required to be maintained under the Act or the Code. Each Member shall have the right, during ordinary business hours, to inspect and copy such Company documents as permitted under Arizona law at the Member's expense.

ARTICLE VIII
ASSIGNMENT OF INTERESTS IN THE COMPANY

8.1 General. No Member shall sell, assign, pledge, hypothecate, encumber or otherwise voluntarily transfer by any means whatever ("Transfer"), either directly or indirectly, all or any portion of its interest in the Company without the consent of the Managers, which consent may be withheld in the sole and absolute discretion of each Manager. A transferee or a Member's interest in the Company will be admitted as a Substituted Member only pursuant to Section 8.3. Any purported Transfer which does not comply with the provisions of this Article 8 shall be void and shall not cause or constitute dissolution of the Company; provided, however, that this Section 8.1 shall not be construed to prohibit any Transfers between or among existing Members of the Company.

8.2 Assignee of Member's Interest. If, pursuant to a Transfer of an interest in the Company by operation of law and without violation of this Article VIII (or pursuant to a Transfer that the Company is required to recognize notwithstanding any contrary provisions of this Agreement), a Person acquires an interest in the Company, but is not admitted as a Substituted Member pursuant to Section 8.3, such Person shall be entitled to receive distributions and allocations with respect to such interest as set forth in this Agreement, including Section 8.4, but shall have no right to any information or accounting of the affairs of the Company, shall not be entitled to inspect the books or records of the Company, and shall not be entitled to any of the rights of a Manager or a Member under the Act or this Agreement.

8.3 Substituted Members. Except as provided in Section 8.1 above, no Person taking or acquiring, by whatever means, the interest of any Member in the Company shall be admitted as a Substituted Member without the written consent of the Managers, which consent may be withheld in the sole and absolute discretion of each Manager. In addition, such Person shall satisfy the following requirements:

- (a) Elect to become a Substituted Member by delivering notice of such election to the Company;
- (b) Execute, acknowledge and deliver to the Company such other instruments as the Managers may reasonably deem necessary or advisable to effect the admission of such Person as a Substituted Member, including, without limitation, the written acceptance and adoption by such Person of the provisions of this Agreement; and
- (c) Pay a transfer fee to the Company in an amount sufficient to cover all reasonable expenses connected with the admission of such Person as a Substituted Member.

The Members shall amend this Agreement and the Articles of Organization (to the extent required by law) from time to time to reflect the admission of any Substituted Members.

8.4 Distributions and Allocations in Respect to Transferred Interests. If any interest in the Company is transferred during any accounting period in compliance with the provisions of this Article VIII, Profits, Losses, each item thereof and all other items attributable to such interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Managers. All distributions on or before the date of such Transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

8.5 Right of First Refusal. If any Member should receive a bona fide offer to purchase all or any portion of such Member's Company interest (either directly or through the sale of greater than fifty percent (50%) of the equity of such Member, if such Member is an entity), which such Member desires to accept, such Member shall first notify the other Members in writing of the name and address of the offeror and the price and terms of the offer (and forward a complete copy of said offer to each other Member). The other Members shall then have the right, for a period of thirty (30) days following the receipt of such notice, to purchase said interest, or the portion involved in the offer, for the same price and on the same terms as contained in the notice, net of any commission agreed to be paid in connection with said offer. If more than one Member elects to purchase the offered interest, then those Members shall purchase the offered interest in the same proportion as their Percentage Interests bear to one another, or in such other proportion as the purchasing Members agree. If no other Member timely elects to purchase the offered interest during the applicable thirty (30) day period, the interest may then be sold and assigned to the offeror, but only for the price and on the terms contained in the notice to the other Members. If the sale and assignment to the offeror is not be concluded within sixty (60) days following the expiration of the initial thirty (30) day period given to the other Members, no sale or assignment shall be made without again affording the other Members the right to purchase as hereinabove provided.

ARTICLE IX DISSOLUTION AND TERMINATION

9.1 Dissolution. The Company shall dissolve upon the first to occur of the following:

- (a) The written agreement of the Managers to dissolve the Company;
- (b) The sale of all of the Company's property and the collection and distribution of all proceeds therefrom;
- (c) The entry of a decree of dissolution under Section 29-785 of the Act; or
- (d) Upon an Event of Withdrawal with respect to the last remaining Member. Except as provided in this Section 9.1(d), the Company shall not dissolve upon the occurrence of an Event of Withdrawal with respect to any Member or Manager, but shall instead continue its business without interruption until subsequently dissolved as provided in this Section 9.1.

9.2 Winding Up.

(a) Notice of Winding Up. Following the dissolution of the Company, as provided in Section 9.1, the Managers shall execute and file a notice of winding up with the Arizona Corporation Commission.

(b) Effect of Filing. After the dissolution of the Company, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until articles of termination have been filed with the Arizona Corporation Commission or until a decree dissolving the Company has been entered by a court of competent jurisdiction.

9.3 Liquidation.

(a) Upon dissolution of the Company, the affairs of the Company shall be wound up and all of its debts and liabilities discharged in the order of priority as provided by law. Any gain or loss on disposition of Company properties in the process of liquidation shall be allocated to the Members in the manner set forth in Article IV. The fair market value of any property to be distributed in kind shall then be determined by an independent appraiser selected by the Managers. The difference between the value of property to be distributed in kind and its book value shall be treated as a gain or loss on the sale of the property and shall be allocated to the Members in the manner set forth in Article IV. The proceeds from liquidation of the Company assets shall be applied as follows:

(i) Payment to creditors of the Company, other than Members, in the order of priority provided by law, including establishment of any necessary reserves.

(ii) Payment of Member Loans, if any, made to the Company.

(iii) To the Members in accordance with Section 4.1(b) through (d).

(b) The winding up of the affairs of the Company and the distribution of its assets shall be conducted by the Managers, who are hereby authorized to do all acts authorized by law for these purposes. Without limiting the generality of the foregoing, the Managers, in carrying out such winding up and distribution, shall have full power and authority, in their discretion, to sell all or any of the Company assets, or to distribute the same in kind to the Members (and the proportion of such share that is received may vary from Member to Member), and may purchase any Company assets for the fair market value thereof, as determined pursuant to Section 9.3(a) above. Any assets distributed in kind shall be subject to all agreements relating thereto which shall survive the termination of the Company.

9.4 Articles of Termination. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Members, articles of

termination shall be executed and filed with the Arizona Corporation Commission by the Managers.

ARTICLE X MISCELLANEOUS PROVISIONS

10.1 Notices. Any written notice, offer, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given for all purposes if delivered personally to the party to whom the same is directed or if sent by certified mail, return receipt requested, addressed to each Manager's and Member's address as set forth on Exhibit A. Any such notice that is sent by certified mail, return receipt requested, shall be deemed to be given two (2) days after the date on which the same is mailed. Otherwise, such notice shall be deemed given upon receipt. Any Manager or Member may change its address for purposes of this Agreement by giving written notice of such change to the other Managers and Members.

10.2 Article and Section Headings. The Article and Section headings in this Agreement are inserted for convenience and identification only and are in no way intended to define or limit the scope, extent or intent of this Agreement or any of the provisions hereof.

10.3 Construction. Whenever the singular number is used herein, the same shall include the plural; and the neuter, masculine and feminine genders shall include each other. If any language is stricken or deleted from this Agreement, such language shall be deemed never to have appeared herein and no other implication shall be drawn therefrom.

10.4 Severability. If any covenant, condition, term or provision of this Agreement is illegal, or if the application thereof to any person or in any circumstance shall to any extent be judicially determined to be invalid or unenforceable, the remainder of this Agreement, or the application of such covenant, condition, term or provision to persons or in circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby, and each covenant, condition, term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

10.5 Governing Law. This Agreement shall be construed and enforced in accordance with, and governed by, Arizona law.

10.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall, for all purposes, be deemed an original and all of such counterparts, taken together, shall constitute one and the same Agreement.

10.7 Entire Agreement; Amendments. This Agreement constitutes the entire agreement of the parties. All prior agreements among the parties, whether written or oral, are merged herein and shall be of no force or effect. This Agreement may only be amended by a written instrument signed by all of the Managers and all of the Members.

10.8 Further Assurances. The Members will execute and deliver such further instruments and do such further acts and things as may be required to carry out the intent and purposes of this Agreement.

10.9 Successors and Assigns. Except as otherwise provided in this Agreement, every covenant, term and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective heirs, legatees, legal representatives, successors, transferees and assigns; provided that this Section 10.9 shall not be deemed to: (a) authorize any Transfer not otherwise permitted under this Agreement; (b) confer upon the assignee of a Member's interest any rights not specifically granted under this Agreement; or (c) supersede or modify in any manner any provision of Section 8.

10.10 Waiver of Action for Partition. Each Member irrevocably waives any right it may have to maintain any action for partition with respect to any of the Company's assets.

10.11 Attorneys' Fees. In the event any party to this Agreement shall be required to initiate legal proceedings to enforce performance of any term or condition of this Agreement, including, but not limited to, the payment of money or the enjoining of any action prohibited hereunder, the prevailing party shall be entitled to recover such sums, in addition to any other damages or compensation received, as will reimburse the prevailing party for reasonable attorneys' fees and court costs incurred on account thereof notwithstanding the nature of the claim or cause of action asserted by the prevailing party.

10.12 Remedies. The rights and remedies of the Members hereunder shall not be mutually exclusive, and the exercise by any Member of any right to which it is entitled shall not preclude the exercise of any other right it may have.

10.13 Tax Elections. The Managers shall cause the Company to make all elections required or permitted to be made for income tax purposes.

10.14 Representations and Warranties. Each Member represents and warrants to the Company, to each Manager and to each other Member that:

(a) It has acquired its interest in the Company for its own account, for investment, and not with a view to or for the resale, distribution, subdivision or fractionalization;

(b) It has no contract, undertaking, understanding, agreement or arrangement, formal or informal, with any Person to sell, transfer or pledge all or any portion of its interest in the Company and has no current plans to enter into any such contract, undertaking, understanding, agreement or arrangement;

(c) It has such business and financial experience alone, or together with its professional advisers, that it has the capacity to protect its own interests in connection with its acquisition of an interest in the Company;

(d) It has sufficient financial strength to hold the interest in the Company as an investment and bear the economic risks of that investment (including possible complete loss of such investment) for an indefinite period of time;

(e) It has been afforded the same access to the books, financial statements, records, contracts, documents and other information concerning the Company and the prospective business of the Company as has been afforded the other Members and has been afforded an opportunity to ask such questions as it has deemed necessary or desirable in order to evaluate the merits and risks of the investment contemplated herein;

(f) It has performed its own due diligence with respect to its interest in the Company and is relying on that due diligence in making this investment and it is not relying on the other Members, any of the Managers or their respective Affiliates with respect to tax, suitability or other economic considerations;

(g) This Agreement constitutes a legal, valid and binding obligation of the Member enforceable against the Member in accordance with its terms; and

(h) To the Member's knowledge, the execution, delivery and performance of this Agreement by the Member does not and will not violate, conflict with or contravene any judgment, order, decree, writ or injunction, or any law, rule, regulation, contract or agreement to which the Member is subject.

(i) Upon the later of the close of escrow for the purchase of the Property by the Company or upon 100% receipt of all equity as described in Exhibit A, Grace shall be credited with predevelopment costs plus miscellaneous operating expenses as described on Exhibit D, and all deposit money will be reimbursed to the appropriate entities. All money advanced by Grace prior to close of such escrow shall be treated as a member loan as described in Section 3.1(d).

10.15 Upon the close of escrow for the purchase of the Property by the Company and at all times thereafter, until the entire parcel is sold or the individual units are sold, only the Managers and NOT the Members shall be required to provide capital above the initial capital contributions used for acquisition equity and operating expenses as necessary to approve the project with the City of Romeoville and to pay all carrying charges required but not limited to real estate taxes, homeowner association fees, loan costs and payments, architectural fees, engineering fees, City of Romeoville department of real estate application and processing fees that are in excess of the initial capital collected at the formation of this Company. The Managers shall be permitted to either borrow the additional capital necessary for completion of the project or the Managers may provide additional capital pro rata.

10.16 The Company will establish a checking account with all checks requiring approval by Jonathon Vento or Donald J. Zeleznak, who shall be the sole signators on the account.

10.17 Upon the close of escrow for the purchase of the Property by the Company, the Company shall be required to deposit all proceeds or excess capital in excess of the acquisition equity into an operating account. This money shall be used to obtain the approval of the City of Romeoville of the Company's development plans for the Property and to pay all carrying charges required, including but not limited to, real estate taxes, homeowner association fees, loan costs and payments, architectural fees, engineering fees, City of Romeoville department of real estate application and processing fees and all other predevelopment fees. This money shall be placed in a business checking account.

ARTICLE XI **DISCLOSURES**

- 11.1 Donald J. Zeleznak hereby disclosed that he is: (a) a licensed real estate broker in the State of Arizona; (b) a manager of Grace; and (c) a member of Zeltor, which is a Member and Manager of the Company and member of Grace. Also, after the close of such escrow, the Company shall enter into a Development Agreement and a Construction Management Agreement with Grace and an agreement with Vento to manage the design, approval, and development of the Property and the general business of the Company.
- 11.2 Jonathon Vento hereby disclosed that he is : (a) a stockholder of Real Estate Consultants, Inc which will be engaged as the Real Estate Broker for the Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first above written.

VENTO INVESTMENTS, LLC, an Arizona
limited liability company, Manager and Member

By: _____
Jonathon Vento, Member

ZELTOR, LLC, a Nevada limited liability
company, Manager and Member

By: _____
Donald J. Zeleznak, Member

EXHIBIT A

<u>Managers' and Members' Names and Addresses</u>	<u>Initial Capital Contribution</u>	<u>Percentage Interest</u>
Zeltor, LLC [REDACTED] [REDACTED] NV [REDACTED]	\$45	45%
Vento Investments, LLC [REDACTED] [REDACTED], AZ [REDACTED]	\$45	45%
RJZ Associates, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$10	10%
Total	\$100.00	100%

EXHIBIT B

PROPERTY LEGAL DESCRIPTION

LOT 4 IN WATERFORD UNIT 1, BEING A SUBDIVISION OF
PART OF THE NORTH HALF OF SECTION 26, TOWNSHIP
38 NORTH, RANGE 8 EAST OF THE THIRD PRINCIPAL
MERIDIAN, IN KANE COUNTY, ILLINOIS.

EXHIBIT C

INITIAL PROPOSED BUDGET

		<u>Amount</u>	<u>\$/sf</u>
Land Cost	3.25 Acres	\$ 1,981,980	\$ 49.55
Approval Soft Cost		\$ -	\$ -
Total Land Cost		\$ 1,981,980	\$ 49.55
Building & Site Cost		\$ 3,200,000	\$ 80.00
Interest Carry	8.00%	\$ 263,328	\$ 6.58
Architectural Design		\$ 75,000	\$ 1.88
Engineering Design		\$ 25,000	\$ 0.63
Design Review Fees		\$ 10,000	\$ 0.25
Legal		\$ 10,000	\$ 0.25
Real Estate Taxes		\$ 20,000	\$ 0.50
Developer Fee		\$ 250,000	\$ 6.25
Signage		\$ 25,000	\$ 0.63
Miscellaneous		\$ 50,000	\$ 1.25
Contingency		\$ 100,000	\$ 2.50
Marketing		\$ 15,000	\$ 0.38
Site Maintenance		\$ 15,000	\$ 0.38
Utility Connection Fees		\$ 50,000	\$ 1.25
Plan Review Fees		\$ 20,000	\$ 0.50
Permit Fees		\$ 50,000	\$ 1.25
Construction Management		\$ 100,000	\$ 2.50
Insurance		\$ 20,000	\$ 0.50
Construction Finance Fees		\$ 25,000	\$ 0.63
Other Consultants		\$ 20,000	\$ 0.50
Accounting		\$ 5,000	\$ 0.13
Total Construction Cost		\$ 4,348,328	\$ 108.71
Total Project Costs		\$ 6,330,308	\$ 158.26

Budget Assumptions			
Site Area:	3.25 Acres	141,570	sf
Building Square Feet		40,000	GSF
Coverage		28%	
Land Cost psf of Land Area		\$14.00	/sf
Loan Amount		\$5,064,000	

EXHIBIT D

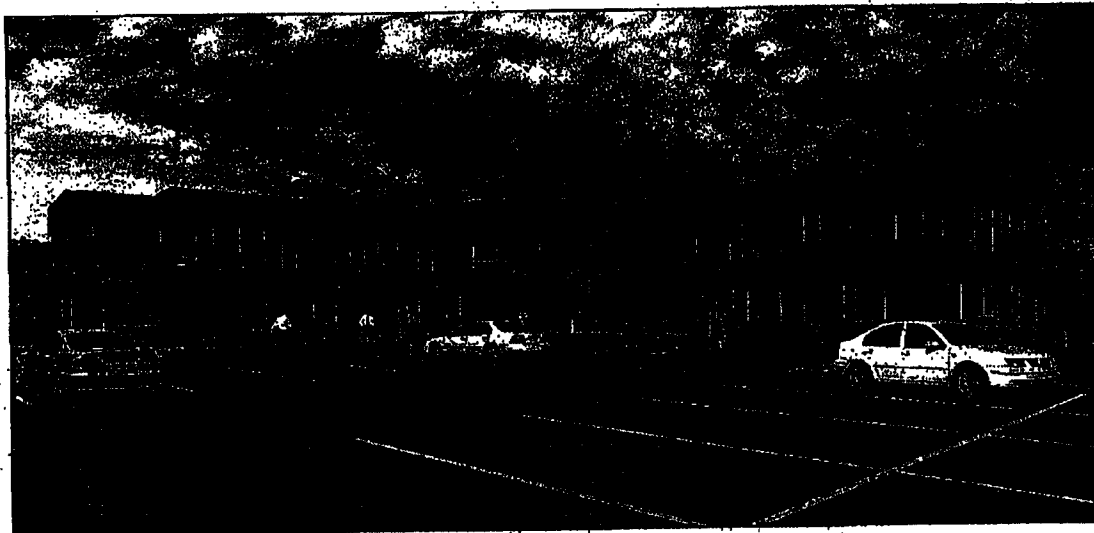
PREDEVELOPMENT COSTS

Arizona Corporation Commission	Certified Copy of Filing Articles of Organization	6/6/06	\$	51.50
Environmental & Associates, Inc.	Phase I Environmental Assessment Report	5/3/06	\$	1,250.00
Fountain Hills Times	Publish Articles of Organization	5/10/06	\$	41.04
Grace Capital	Filing Articles of Organization	6/6/06	\$	85.00
Monarch Design & Construction	Due Diligence/Zoning/Const Documents	4/1/06	\$	14,875.00
Toussaint & Carlson, Ltd.	Professional Services	3/31/06	\$	1,552.58
Toussaint & Carlson, Ltd.	Reimbursable Expense	4/30/06	\$	16.64
Toussaint & Carlson, Ltd.	Professional Services	4/30/06	\$	254.92
Developer Fee	1/3 of \$250,000	6/21/06	\$	83,333.33
			\$	<u>101,460.01</u>

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

A Commercial Condominium Development
In Burr Ridge, Illinois



Exclusively Presented
by
Grace Communities



Grace Communities
9500 East Ironwood Square Drive
Scottsdale Arizona 85258



Table of Contents

- I. Introduction*
- II. Project Overview / Financial Summary*
- III. Entitlements*
- IV. Consultant Team*
- V. Project Timeline - Estimated*
- VI. Aerial Photograph*
- VII. Site Map*
- VIII. Coverage Analysis*
- IX. Proforma*
- X. Disclaimer*
- XI. Membership Interest Subscription Agreement*
- XII. Operating Agreement of Burr Ridge Office Investors, LLC*
- XII. Request for Taxpayer Identification Number (W-9)*
- XIV. Wiring Instructions*

Burr Ridge Office Investors, LLC
9500 East Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258 480.767.5245

RISK ANALYSIS

This package is intended for sophisticated real estate investors. This is a highly speculative real estate development project and should only be made by persons who can afford to lose their entire investment. Some of the risk factors include no assurance of profitability, a downturn in the commercial real estate market, inability to secure acquisition or construction financing, unforeseen competition and the need for additional capital. We recommend that Investors consult legal, accounting and financial planning advice prior to investing.

The Investor is aware that any renderings depicting individual units, site plans and square footage are all conceptual in nature and may change in the future. Grace Communities reserves the right to modify the interior and exterior design, specifications, location, size, design features and pricing of each unit.

ACC000290
FILE #8451

2

2158

BLK000063

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

Project Overview

Grace Communities is pleased to announce the development of the Burr Ridge Office Condominiums located in the beautiful Village of Burr Ridge, IL just 19 miles from the Chicago Loop off of I-55 and County Line Road. Proposed is a 14 building complex totalling 170,000 square feet of office and medical space.

198,000

Financial Summary

	<u>Total</u>	<u>Per NSF</u>
Net Revenue	\$ 36,604,000	\$ 215.32
Total Project Costs	\$ (29,646,000)	\$ (174.39)
Total Project Profit	\$ 6,958,000	\$ 40.93
Equity Invested	\$ 4,000,000	\$ 23.53
Equity Partner Profit 40%	\$ 2,783,000	\$ 16.37
Investor Cash on Cash Return 70%		

Bought land.

*opns 25¢ LOI '13
15*

45,000 Phase 1

good sales

ACC000291
FILE #8451

3

2159

BLK000064

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

Entitlements

The entitlement process requires an amendment to the PUD. The current proposed project is considered a major change and will require Plan Commission & Village Board submissions, and also a public hearing. Generally, this requires about 90 - 120 days for full completion. However, Preliminary and Final PUD submissions can be concurrent. The Building Permit submission will require full Board approval prior to formal review. No permits will be issued without full Board approval. It is also necessary to assess City additional road requirements through the Marriott parcel & the reality of a recapture fee for frontage road improvements. It is also desirable to remove the traffic study requirement.

Consultant Team

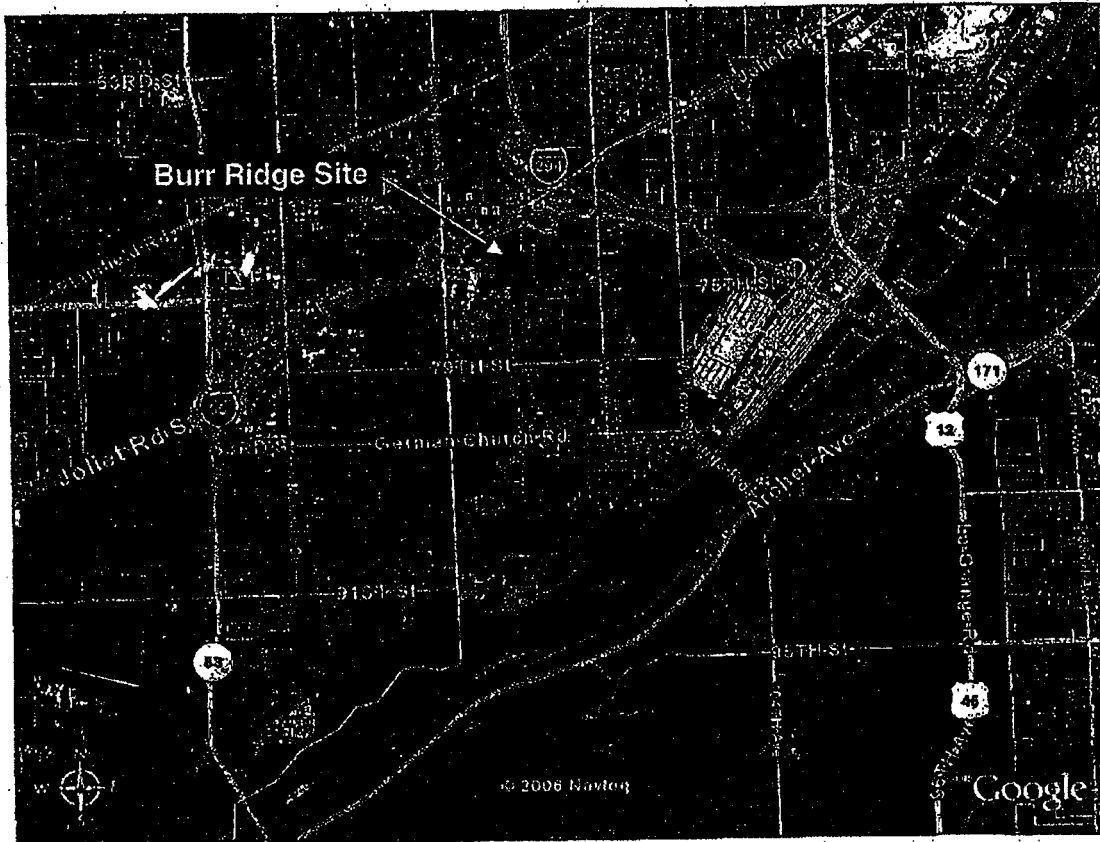
Developer:	Grace Communities	Scottsdale, AZ
Design & Layout:	Grace Communities	Scottsdale, AZ
Architect:	Monarch Design & Construction	St. Charles, IL
Sales Agent:	Real Estate Consultants, Inc.	Glenellyn, IL
Contractor:	Monarch Design & Construction	St. Charles, IL

Project Timeline - Estimated

January 2006	Concept Plan Village of Burr Ridge Review
February 2006	Concept Plan Village of Burr Ridge Responses Submit - Plan Commission - Public Hearing
March 2006	Investor Funds Due
April 2006	Plan Commission- Public Hearing Meeting (45 days prior) Village Board Final ARC Approval
May 2006	Land Closing Submit Building Permit
June 2006	Construction Starts / Receive Permit
April 2007	Substantial Completion

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS



Aerial Photograph

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS



Site Map

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

DEVELOPMENT SITE DATA:

SITE AREA:

15.258 AC = 664,638 SF
+ 4.507 AC DETENTION
19.765 AC = 860,963 SF

BUILDING AREA:

170,000 +/- SF

PROPOSED FAR:

0.25 FAR NET
0.20 FAR GROSS

PARKING PROVIDED:

850 +/- CARS @ 5/1000

PARKING RATIO PROVIDED:

5.0/1000

ZONING INFORMATION:

ZONING: 0-2 and PUD

BUILDING HEIGHT:

3 STORIES / 40'

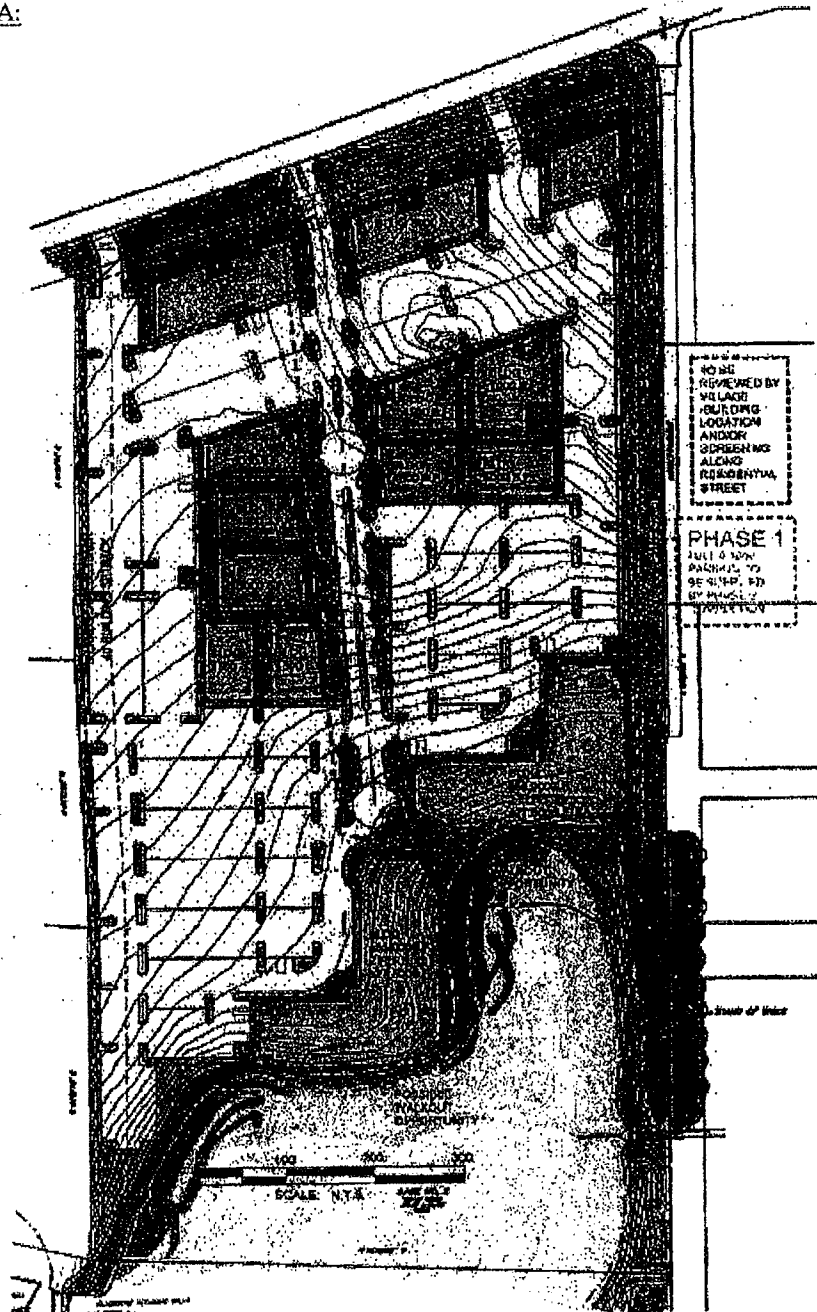
MAXIMUM FAR: 0.25

MAXIMUM LOT COVERAGE:

80%

PARKING REQUIRED:

OFFICE: 4/1000
MEDICAL: 6/DOCTOR



Coverage Analysis

7

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Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

Project Data

Site Area:	15.258 Acres Net (+/- 276,800 sf)
	+ 4.507 Acres Retention = 19.765 Total Acreage (+/- 860,963 sf)
Zoning:	O-2 Office Manufacturing and Distribution Park & PUD
Allowed Density:	0.25 FAR
Coverage:	20% Gross 26% Net
Max. Bldg. Height:	3 Stories or 40 feet Allowable
Building Square Feet:	170,000 GSF
Land Cost psf of Land Area:	\$ 16.25 /sf

Development Proforma

Land Cost	15.5 Acres	\$ 10,971,675	\$ 64.54
Approval Soft Cost		\$ -	\$ -
Total Land Cost		\$ 10,971,675	\$ 64.54
Building & Site Cost		\$ 13,600,000	\$ 80.00
Interest Carry	7.00%	\$ 1,079,106	\$ 6.35
Architectural Design		\$ 300,000	\$ 1.76
Engineering Design		\$ 100,000	\$ 0.59
Design Review Fees		\$ 15,000	\$ 0.09
Legal		\$ 50,000	\$ 0.29
Real Estate Taxes		\$ 125,000	\$ 0.74
Developer Fee		\$ 1,000,000	\$ 5.88
Signage		\$ 25,000	\$ 0.15
Miscellaneous		\$ 250,000	\$ 1.47
Contingency		\$ 500,000	\$ 2.94
Marketing		\$ 15,000	\$ 0.09
Site Maintenance		\$ 15,000	\$ 0.09
Utility Connection Fees		\$ 400,000	\$ 2.35
Plan Review Fees		\$ 100,000	\$ 0.59
Permit Fees		\$ 350,000	\$ 2.06
Construction Management Fees		\$ 250,000	\$ 1.47
Insurance		\$ 100,000	\$ 0.59
Construction Finance Fees		\$ 250,000	\$ 1.47
Other Consultants		\$ 100,000	\$ 0.59
Accounting		\$ 50,000	\$ 0.29
Total Construction Cost		\$ 18,674,106	\$ 109.85
Total Project Costs		\$ 29,645,781	\$ 174.39

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8

Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

Building Sales Analysis

Building Sales		\$	39,100,000	\$	230.00
Sales Commissions	6.0%	\$	(2,346,000)	\$	(13.80)
Closing Costs	(30 Closings)	\$	(150,000)	\$	(0.88)
Net Revenue		\$	36,604,000	\$	215.32

Financing & Investment Analysis

Total Loan Amount		\$	23,716,625		
			80%		
Equity		\$	4,000,000		
Total Project Profit		\$	6,958,219	\$	40.93
Grace Profit	60%	\$	4,174,931		
Equity Partner Profit	40%	\$	2,783,287		

70% Equity Cash on Cash Return
Anticipated 24 Month Project Schedule

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Burr Ridge Office Investors, LLC

OFFICE CONDOMINIUMS

Disclaimer:

This financial proforma is intended to be reviewed in its entirety. Portions of this financial proforma may lead to inaccurate assumptions when not viewed in the context of the entire proforma.

This financial proforma has been prepared by Grace Communities, based entirely on assumptions provided by the developer. Neither Grace Communities, its affiliates, or individuals involved in completing this financial proforma guarantees the accuracy of these assumptions, or the results projected from these assumptions in this financial proforma. This financial proforma is submitted for use by the developer, investors, and potential lenders as they see fit, and is subject to errors and omissions.

Other entities have made preliminary estimates of the development costs. The design of the project is now being revised and detailed. The development costs and schedule will be updated continuously over the life of the project. Neither Grace Communities, its affiliates, or the other entities guaranty the accuracy of the preliminary development costs or the results projected from these assumptions in this financial proforma.

SUBSCRIPTION AND COUNTERPART SIGNATURE PAGE
FOR MEMBERSHIP INTERESTS

BURR RIDGE OFFICE INVESTORS, LLC

January 25, 2006

Donald J. Zeleznak
Jonathon Vento
Burr Ridge Office Investors, LLC
[REDACTED]

[REDACTED] Arizona [REDACTED]

Mr. Zeleznak & Mr. Vento:

I am forwarding this letter in connection with my acquisition of ____% membership interests in Burr Ridge Office Investors, LLC an Arizona limited liability company (the "Company") at a purchase price of _____ and 00/100 Dollars \$ _____.

You have informed me that the Interests will not be registered pursuant to the Securities Act of 1933, as amended (the "Act"), or under Arizona or any other state's securities laws based upon your belief that the Interests are not "securities" as defined under the Act, or even if so defined, the sale to me qualifies for an exemption from the registration requirements of said federal and state securities laws. You have further advised me that you are relying in part on my representations and warranties as set forth in this letter for purposes of proceeding in this matter and if necessary, claiming such interpretations and exemptions.

Accordingly, I hereby represent and warrant to the Company as follows:

(a) I am aware and understand that the Company has been formed solely to purchase, develop and sell commercial real estate known as "Burr Ridge", on Just South of Hwy 55, on Commonwealth Ave Burr Ridge, Illinois. Any funds contributed by Members in excess of the pre-development for Burr Ridge Office Investors, LLC will be returned to subscribers in proportion to the percentage of the total capital contributions by such subscriber (therefore causing the Percentage Interests of all Members to remain the same);

(b) I understand that my acquisition of the Interests is a speculative investment involving a high degree of risk, including without limitation, any and all risks associated with an investment in commercial real estate.

(c) I have received and reviewed copies of the Operating Agreement for Burr Ridge Office Investors, LLC ("The Operating Agreement") as well as the proforma for

Burr Ridge Office Investors, LLC and have examined such other documents and made such other inquiries as I deemed appropriate to verify for myself any statements made to me concerning the acquisition of the Interests and the Company's acquisition of Burr Ridge parcel.

(d) Other than the limited Distribution Rights set forth in the Operating Agreement, I acknowledge that I may have to hold my investment indefinitely and may not be able to liquidate my investment in the Interests, even in the event of a financial emergency. Moreover, I understand that my Distribution Rights under the Operating Agreement are subject to the ability of the Company to sell all or significantly all of the property, including buildings being constructed.

(e) I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of my investment in the interests;

(f) I hereby represent that I have a net worth sufficient to bear the economic risk of losing my entire investment in the Company without impairing my ability to provide for my support and support of those dependant on me;

(g) I acknowledge that I have a pre-existing personal or business relationship with Donald Zeleznak and Jonathon Vento, the "Managing Members" of the Company;

(h) I am acquiring the Interests solely for my own account, for investment, and not with a view to, or for, the resale, distribution, subdivision or fractionalization thereof, and I have no present plans to enter into any contract, undertaking, agreement or arrangement for any such resale, distribution, subdivision or fractionalization thereof;

(i) I have independently evaluated and understand the federal income tax aspects of my investment in the Company, and have received such advice in this regard as I deem necessary from sources that I deem qualified. In particular, I acknowledge and agree that the Company will, pursuant to Section 1.761-2 of the Treasurer Regulations promulgated under the Internal Revenue Code, as amended, elect to have the Company included from Subchapter K of the Internal Revenue Code. As a result, I will receive a K-1 but I will be individually responsible for accounting for and reporting to the Internal Revenue Service my taxable gain, loss or income relating to my contributions to and distributions for the Company regarding my Interests;

(j) I acknowledge that neither the principals of the Company nor any other persons have ever represented, warranted or guaranteed, expressly or by implication:

- (1) the approximate or exact length of time that I will be required to remain a Member of the Company; and
- (2) the percentage of profit and/or amount of, or type of, consideration, profit or loss (including tax write-offs and/or tax benefits) to be realized, if any, as a result of my investment in the Company.

Without in any way limiting my warranties and representations as set forth herein, I further agree that I shall in no event pledge, hypothecate, sell or transfer the Interests other than in compliance with the Operating Agreement.

The warranties and representations contained in this investment letter shall be binding upon my heirs and legal representatives and shall insure to the benefit of the Corporation's success and assigns and your successors and assigns.

I hereby acknowledge that I understand the meaning and legal consequences of the warranties and representations contained above, and I hereby agree to indemnify and hold harmless the Company and each other Member and the Administrator of the Company from and against any and all loss, damage or liability arising from or relating to any breach of any representation or warranty contained in this investment letter.

I hereby acknowledge and agree that this shall constitute my signature page to the Operating Agreement and by my signature below, I agree to be bound by all terms and conditions set forth therein.

Individual Member Signature:

Entity Member Signature:

Signature of individual Member

Print Name of Entity Member

Print Name of individual Member

By: _____

Signature

Its: _____

Please indicate capacity

Signature of Joint Owner, if applicable

Print Address

Print Name of Joint Owner, if applicable

SS# or Tax ID #

Print Address

Phone #

Accepted by Burr Ridge Office Investors, LLC

By: _____

Its: _____

Date Accepted: _____

Notary for Individual Subscriber:

STATE OF _____)
County of _____) ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by _____.

Notary Public

My Commission Expires:

Notary of Entity Subscriber:

STATE OF _____)
County of _____) ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by _____, as _____ of _____.

Notary Public

My Commission Expires:

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Accredited Investor Addendum to Subscription Agreement

under the Securities Act or any state law and is being made to "accredited investors" (as defined in Rule 501 of Regulation D under the Securities Act).

This Subscription Agreement is one of a number of such subscriptions for Interests. By signing this Subscription Agreement, I offer to purchase from the Company the amount of Interests set forth above on the terms specified herein. The Company reserves the right, in its complete discretion, to reject any subscription offer. If my offer is accepted, the Company will execute a copy of this Subscription Agreement and return it to me.

2. Accredited Investor. I am an Accredited Investor because I fall within one or more of the following categories:

(PLEASE CHECK
APPROPRIATE
CATEGORY)

_____ \$1,000,000 Net Worth.

A natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his/her purchase exceeds \$1,000,000.

_____ \$200,000/\$300,000 Income.

A natural person who had an individual income in excess of \$200,000 (including contributions to qualified employee benefit plans) or joint income with such person's spouse in excess of \$300,000 in each of the two most recent years and who reasonably expects to attain the same individual or joint levels of income (including such contributions) in the current year.

_____ Director or Officer of Issuer

Any Manager or Member of the Manager of the Company.

_____ All Equity Owners In Entity Are Accredited.

An entity (i.e. corporation, partnership, trust, IRA, etc.) in which all of the equity owners are Accredited Investors as defined herein.

_____ Corporation

2171

A corporation not formed for the specific purpose of acquiring the Interests offered, with total assets in excess of \$5,000,000.

____ Other Accredited Investor

Any natural person or entity which qualifies as an accredited investor pursuant to Rule 501(a) of Regulation D promulgated under the Act (specify basis for qualification): _____

3. Representations and Warranties. I represent and warrant to the Company that:

(a) I: (i) have adequate means of providing for my current needs and possible contingencies, and I have no need for liquidity of my investment in the Interests, (ii) can bear the economic risk of losing the entire amount of my investment in the Interests, and (iii) have such knowledge and experience in business and financial affairs that I am capable of evaluating the relative risks and merits of an investment in the Interests or I am being advised by others (named below and acknowledged as being the "Purchaser Representative(s)" of the Purchaser in connection with evaluating the merits and risks of a purchase of Interests) with such knowledge and experience that the Purchaser and such purchaser representative(s) together are capable of making such evaluation.

(b) The address set forth below is my correct residence, and I have no present intention of becoming a resident of any other state or jurisdiction.

(c) I acknowledge that I: (i) have received and thoroughly reviewed, and am familiar with: (A) this Subscription Agreement and the Operating Agreement for the Company; and (C) all other documents you furnished in connection with this offering prior to the execution of this Subscription Agreement (collectively, the "Company Documents"); and (ii) am familiar with and understand each of the Company Documents, including the Operating Agreement. All documents, records and books pertaining to the Company and the Project requested by me, including all pertinent records of the Company, the Managers and their affiliates, financial and otherwise, have been made available or delivered to me.

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(d) In deciding to purchase Interests, I have relied solely upon the Company Documents, and the advice of my legal counsel, accountants or other financial advisers with respect to the tax and other consequences involved in purchasing Interests.

(e) I acknowledge that the Interests being acquired will be governed by the terms and conditions of the Articles of Organization and the Operating Agreement, which I accept and by which I agree to be legally bound.

(f) I represent and warrant that all information delivered to the Managers regarding my net worth, income, investment experience and education is true and correct. My financial circumstances, investment portfolio and tax bracket are appropriate for a Member in the Company, and I believe the purchase of Interests to be a suitable investment.

(g) I have had an opportunity to ask questions of, and have received satisfactory answers from, the representatives of the Managers and the Company concerning the affairs of the Company and the Managers generally, the Project, the Company's loan, and terms and conditions of my proposed investment in the Interests.

(h) No person or entity has made any oral or written representation or warranty whatsoever with respect to any matter or thing concerning the Company and this offering of Interests that is in any way inconsistent with information set forth in the Company Documents.

(i) I am not subscribing for the Interests as a result of or subsequent to any advertisement, article, notice, or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio or presented at any seminar or meeting, or any solicitation of a subscription by a person not previously known to me in connection with investments in securities generally.

(j) I am not relying on the Company with respect to the tax and other economic considerations of the Purchaser relating to this subscription. In regard to such considerations, the Purchaser has relied on the advice of, or has consulted with, only its own advisors.

(k) I understand that no Interests have been registered under the Securities Act, nor have they been registered pursuant to the provisions of the securities or other laws of applicable jurisdictions, and are subject to substantial restrictions on transfer as provided in the Operating Agreement.

(l) The Interests for which I subscribe are being acquired solely for my own account, for investment and are not being purchased with a view to or for their resale or distribution. In order to induce the Company to sell Interests to me,

the Company will have no obligation to recognize the ownership, beneficial or otherwise, of the Interests by anyone but me.

(m) I am aware of the following:

(i) The Interests are a speculative investment which involves a high degree of risk; and

(ii) The Interests are not readily transferable; it may not be possible for me to liquidate my investment in the Interests.

(n) I understand that I may be required to provide current financial or other information to the Managers to enable them to determine whether I am qualified as an "Accredited Investor" to purchase Interests.

(o) I understand that no federal or state agency, including the Securities and Exchange Commission, or the securities regulatory agency of any state, has approved or disapproved the Interests, passed upon or endorsed the merits of the offering or the accuracy or adequacy of the Memorandum, or made any finding or determination as to the fairness of the Interests for public investment.

(p) I represent, warrant and agree that, if the undersigned is acquiring Interests in a fiduciary capacity or the undersigned is a corporation, trust or other entity: (i) the above representations, warranties, agreements, acknowledgements and understandings shall be deemed to have been made on behalf of the person or persons for whom such Interests are being acquired; (ii) the name of such person or persons is indicated below under the subscriber's name; (iii) such further information as the Managers deem appropriate will be furnished regarding such person or persons; and (iv) the undersigned is authorized and otherwise duly qualified to purchase and hold the Interests.

The foregoing representations and warranties are true and accurate as of the date hereof, shall be true and accurate as of the date of the delivery of the funds to the Company and shall survive such delivery. If, in any respect, such representations and warranties are not true and accurate prior to delivery of the funds, I will give written notice of that fact to the Company, specifying which representations and warranties are not true and accurate and the reasons therefor.

4. Operating Agreement. I agree to execute and deliver to the Company with this Subscription Agreement my executed signature page to the Operating Agreement.

5. Transferability. I understand that I may sell or otherwise transfer my Interests only with the consent of the Managers and the Members of the Company.

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6. Indemnification. I understand the meaning and legal consequences of the representations and warranties contained in Paragraph 3 above, and I will indemnify and hold harmless the Company, the Managers and representatives involved in the offer or sale of the Interests to me, as well as each of the managers and representatives, employees and agents and other controlling persons of each of them, from and against any and all loss, damage or liability due to or arising out of a breach of any representation or warranty of mine contained in this Subscription Agreement.

7. Revocation. I will not cancel, terminate or revoke this Subscription Agreement or any agreement made by me hereunder and this Subscription Agreement shall survive my death or disability.

8. Termination of Agreement. If this subscription is rejected by the Company, then this Subscription Agreement shall be null and void and of no further force and effect, no party shall have any rights against any other party hereunder, and the Company shall promptly return to me the funds delivered with this Subscription Agreement.

9. Miscellaneous.

(a) This Subscription Agreement shall be governed by and construed in accordance with the substantive law of the State of Arizona.

(b) This Subscription Agreement constitutes the entire agreement between the parties with respect to its subject matter, and may be amended only by a written document executed by all parties.

**OPERATING AGREEMENT
OF**

BURR RIDGE OFFICE INVESTORS, LLC

This Operating Agreement is entered into effective as of this 28TH day of April, 2006, by and among Vento Investments, LLC, an Arizona limited liability company ("Vento"), and Zeltor, LLC, a Nevada limited liability company ("Zeltor"), as the Managers and as Members, and RJZ Associates, LLC, an Arizona limited liability company, as a Member, and such other persons who may become Members by executing Subscription Agreements or other appropriate documents that are accepted by the Company, and making their initial Capital Contributions, as Members of Burr Ridge Office Investors, LLC.

**ARTICLE I
THE COMPANY; GENERAL PROVISIONS**

1.1 Formation. The parties have formed the Company as a limited liability company pursuant to the provisions of the Act and upon the terms and conditions set forth in this Agreement and the Articles of Organization. Capitalized terms and phrases used in this Agreement shall have the meanings given those terms in Article II below. The names and addresses of the Members and the Managers are set forth on Exhibit A.

1.2 Name. The name of the Company is Burr Ridge Office Investors, LLC.

1.3 Purpose. The purposes of the Company and the general character of its business are to: (a) acquire that certain parcel of real property located in Burr Ridge, Illinois, and more particularly described on Exhibit B (the "Property"); (b) own, develop, operate, lease, finance, refinance, market and sell the Property; and (c) engage in any activities necessary, incidental or related to the foregoing purposes. The Company shall be a limited liability company only for the purposes specified in this Section 1.3 (the "Permitted Activities"). The Company shall not engage in any activity or business other than the Permitted Activities, and no Manager or Member shall have any authority to hold itself out as a general agent of any other Manager or Member in any other business or activity.

1.4 Intent. It is the intent of the Managers and the Members that the Company shall always be operated in a manner consistent with its treatment as a "partnership" for federal and state income tax purposes. The Company is not a "partnership" for purposes of the Arizona Uniform Partnership Act or a "limited partnership" for purposes of the Arizona Uniform Limited Partnership Act, and the Members are not partners. It is also the intent of the Managers and the Members that the Company not be operated or treated as a "partnership" for purposes of Section 303 of the Federal Bankruptcy Code.

1.5 Office. The registered office of the Company within the State of Arizona is 9500 E. Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258. The Managers may change the Company's registered office to any other place within the State of Arizona upon written notice to the Members.

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1.6 Agent for Service of Process. The name and address of the agent for service of legal process on the Company in Arizona is Donald J. Zeleznak, 9500 E. Ironwood Square Drive, Suite 201, Scottsdale, Arizona 85258. The Managers may change the Company's agent for service of process upon written notice to the Members.

1.7 Term. The term of the Company commenced on the date the Articles of Organization were filed with the Arizona Corporation Commission and shall continue until dissolved as set forth in this Agreement.

1.8 Independent Activities.

(a) Each Member hereby expressly acknowledges that each Manager and Member (either directly or through its Affiliates) is involved in transactions, investments and business ventures and undertakings of every nature, some of which involve the real estate acquisition, development, leasing and sale industry (all such investments and activities being referred to as "Independent Activities").

(b) Nothing in this Agreement shall be construed to: (i) prohibit any Manager or any Member or their respective Affiliates from continuing, acquiring, owning or otherwise participating in any Independent Activity that is not owned or operated by the Company, even if such Independent Activity is or may be in competition with the Company; or (ii) require any Manager or any Member to allow the Company or the other Members to participate in the ownership or profits of any such Independent Activity. To the extent any Member would have any rights or claims against a Manager or Member as a result of the Independent Activities of such Person or its Affiliates, whether arising by statute, common law or in equity, the same are hereby waived with respect to the operation of the Company.

(c) Each Member hereby represents and warrants to each Manager and to each other Member that it has not been offered, as an inducement to enter into this Agreement, the opportunity to participate with any Manager or any other Member in the ownership or profits of any Independent Activity of any kind whatsoever of such Manager or Member or its Affiliates.

(d) The Managers and the Members hereby expressly acknowledge, represent and warrant to one another that they are sophisticated investors, they understand the terms, conditions and waivers set forth in this Section 1.8, and that the provisions of this Section 1.8 are reasonable, taking into account their relative sophistication and bargaining position.

ARTICLE II
DEFINITIONS

Unless otherwise expressly provided herein or unless the context otherwise requires, the terms and phrases with initial capital letters used in this Agreement shall be defined as follows:

"Act" means the Arizona Limited Liability Company Act, as set forth in Arizona Revised Statutes § 29-601 et. seq., as amended from time to time.

"Adjusted Capital Account Balance" means an amount with respect to any Member equal to the balance in such Member's Capital Account at the end of the relevant fiscal year, after increasing the balance in such Member's Capital Account by any amount which such Member is deemed to be obligated to restore pursuant to Regulations §§ 1.704-2(g) (1) and 1.704-2(i) (5).

"Affiliate(s)" of a Person means: (a) any Person directly or indirectly owning, controlling or holding with power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (b) any Person ten percent (10%) or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by the Person in question; (c) any Person directly or indirectly controlling, controlled by or under common control with the Person in question; (d) any officer, director, member, or partner of the Person in question; and (e) if the Person in question is an officer, director, member or partner, any company for which such Person acts in any such capacity.

"Agreement" means this Operating Agreement, as amended from time to time. Words such as "herein," "hereinafter," "hereof" and "hereunder," refer to this Agreement as a whole, unless the context otherwise requires.

"Articles of Organization" means the Articles of Organization of the Company filed with the Arizona Corporation Commission on February 6, 2006, as amended from time to time.

"Book Value" has the meaning given that term in Section 4.3(b).

"Capital Account" means, with respect to each Member, the Capital Account maintained for such Member in accordance with Section 4.6.

"Capital Contributions" means the amount of cash and the net fair market value of any property contributed by each Member to the Company pursuant to Article III, but shall not include amounts paid to any Person with respect to any assignment of any interest in the Company or any substitution of a Member.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Company" means the limited liability company formed pursuant to the Articles of Organization and any limited liability company continuing the business of this Company in the event of dissolution as herein provided.

"Event of Withdrawal" means an event listed in Section 29-733 of the Act.

"Grace" means Grace Capital, LLC, an Arizona limited liability company.

"Independent Activities" has the meaning given that term in Section 1.8(a).

"Manager" means each of Vento and Zeltor or any Person appointed to act as a successor Manager in accordance with the terms of this Agreement and designated as such in an amendment to the Articles of Organization.

"Member Loan" has the meaning given that term in Section 3.1(d).

"Member" means any Person identified as a Member in the heading to this Agreement. If any Person is admitted as a Substituted Member pursuant to the terms of this Agreement, "Member" shall be deemed to refer to such Person.

"Net Cash Flow" means the gross cash proceeds to the Company from all sources less the portion thereof used to pay or establish reserves for Company expenses, debt payments, capital improvements, replacements and contingencies, all as reasonably determined by the Managers.

"Percentage Interest" means a Member's interest, expressed as a percentage, in Profits, Losses, and distributions of the Company as provided for in this Agreement. The Members' Percentage Interests are set forth opposite their names on Exhibit A.

"Permitted Activities" has the meaning given that term in Section 1.3.

"Person" means any natural person, partnership, joint venture, limited liability company, corporation, estate, trust, association or other legal entity.

"Profits" and "Losses" mean, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a), upon consultation with the Company's accountants or legal counsel, to comply with relevant Regulations.

"Property" has the meaning given that term in Section 1.3.

"Recipient Member" has the meaning given that term in Section 4.2(a).

"Regulations" shall mean the Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time.

"Substituted Member" means any Person admitted to the Company as a Member pursuant to Section 8.3.

"Tax Advances" has the meaning given that term in Section 4.2(a).

"Tax Amount" means an amount with respect to each Member (which may be a positive or negative number), determined on a yearly basis, equal to: (a) the combined maximum Arizona and federal income tax rates applicable to individuals for the period with respect to which the Tax Amount is being determined, multiplied by (b) such Member's "net income" or "net loss" for the year with respect to which the Member's Tax Amount is being determined. Each Member's Tax Amount shall be determined on an estimated basis, taking into account the best information available to the Managers, but shall be subject to reconciliation annually at the time the Company's federal income tax returns are filed. For purposes of this definition, "net income" means the amount, if any, by which the items of income and gain allocated to a Member for a year exceed the items of loss and deduction allocated to that Member for such year, and "net loss" means the

amount, if any, by which the items of loss and deduction allocated to a Member for a year exceed the items of income and gain allocated to that Member for such year.

"Transfer" has the meaning given that term in Section 8.1.

"Unfunded Tax Amount" means, with respect to each Member, the excess, if any, of: (a) the sum of such Member's Tax Amounts for the entire term of the Company, over (b) the sum of: (i) all amounts previously distributed to such Member pursuant to Section 4.1; and (ii) the portion of such Member's Tax Advances (if any) that have not been offset by distributions withheld under Section 4.2(b).

"Unreturned Capital Contributions" means, with respect to each Member, such Member's total Capital Contributions less distributions previously received by the Member pursuant to Section 4.1(c).

ARTICLE III **CAPITAL CONTRIBUTIONS AND RELATED MATTERS**

3.1 Initial Capital Contributions; Additional Capital Contributions; Initial Capital Account Credits and Percentage Interests; Member Loans.

(a) Initial Capital Contributions. Concurrently with the execution of this Agreement by the Managers and all of the Members, each Member shall contribute to the Company the amount of cash set forth opposite such Member's name on Exhibit A.

(b) Initial Capital Account Credits and Percentage Interests. In conjunction with the foregoing contributions, each Member shall receive a Capital Account credit and Percentage Interest in the Company as set forth on Exhibit A.

(c) Additional Capital. Except as provided in Section 3.1(a) above and Section 4.2(b) below, no Member shall be required to make any Capital Contributions to the Company unless such Member agrees in writing to do so.

(d) Member Loans. Any Member may, with the written consent of the Managers, make a loan (a "Member Loan") to the Company, solely to further the business of the Company. Member Loans shall bear interest at a rate equal to the cost of borrowed funds to the Member making the Member Loan plus three percent (3%) per annum, and shall be repaid on such reasonable terms and conditions as may be approved by the Managers. No Member shall be required to make a Member Loan unless such Member has agreed in writing to do so. Member Loans shall be liabilities of the Company and, unless otherwise agreed by the Managers and the lending Member, shall be paid from Net Cash Flow prior to any distributions to the Members.

(e) No Creditor Rights or Third Party Beneficiaries. The provisions of this Section 3.1 are solely for the benefit of the Members, and no provision of this Agreement is (or shall be deemed to be) for the benefit of or enforceable by any creditor, contractor or subcontractor of the Company or any Member, and no creditor of the Company will be entitled to require any Manager

or any Member to solicit or demand Capital Contributions or Member Loans from any other Member.

3.2 Limitations Pertaining to Capital Contributions.

(a) Return of Capital. Except as otherwise provided in this Agreement, no Member shall withdraw any Capital Contributions or any money or other property from the Company without the written consent of the Managers. Under circumstances requiring a return of any Capital Contributions, no Member shall have the right to receive property other than cash, unless otherwise specifically agreed in writing by the Managers at the time of such distribution. No Member shall have priority over any other Member as to return of Capital Contributions, allocations of income, gain, losses, credits, deductions, or as to distributions, except as otherwise specifically provided in this Agreement.

(b) Liability of Members. Except as agreed upon in writing, no Manager or Member shall be personally liable for the debts, liabilities, contracts or any other obligations of the Company. Except as agreed upon by the Members, and except as otherwise provided by Section 29-651 of the Act or by any other applicable state law, the Members shall be liable only to make the Capital Contributions as provided in Section 3.1(a) above and Section 4.2(b) below, and shall not be required to make any other Capital Contributions or loans to the Company. Unless otherwise provided under the Act or other applicable state law, no Manager or Member shall have any personal liability for the repayment of the Capital Contributions or Member Loans of any other Member.

(c) No Interest, Salary or Reimbursement. Except as specifically provided in this Agreement or otherwise agreed by the Members, no Member shall receive any interest, salary or drawing with respect to such Member's Capital Contributions or Capital Account.

(d) Withdrawal. Except as provided in Article VIII, no Member may voluntarily or involuntarily withdraw from the Company or terminate its interest in the Company without the prior written consent of the Managers. Any Member which withdraws from the Company in breach of this Section 3.2(d), or any Member with respect to which an Event of Withdrawal occurs:

- (i) shall be an assignee of a Member's interest, as provided in the Act;
- (ii) shall have no right to participate in the business and affairs of the Company or to exercise any rights of a Member under this Agreement or the Act; and
- (iii) shall continue to share in Company distributions, on the same basis as if it had not withdrawn (or as if the Event of Withdrawal had not occurred), provided that any damages to the Company as a result of such withdrawal (or Event of Withdrawal) shall be offset against amounts that would otherwise be distributed to such Member.

ARTICLE IV
ALLOCATION OF DISTRIBUTIONS, PROFITS, LOSSES
AND OTHER ITEMS AMONG THE MEMBERS

4.1 Net Cash Flow. The Company's Net Cash Flow shall be distributed from time to time as determined by the Managers, in the following order of priority:

- (a) First, to make Tax Advances to the Members, if and to the extent required under Section 4.2;
- (b) Second, to repay all Member Loans in full;
- (c) Third, to the Members in proportion to their respective Unreturned Capital Contributions, until the Unreturned Capital Contributions of all of the Members have been reduced to zero; and
- (d) Fourth, the balance, if any, to the Members in proportion to their Percentage Interests.

4.2 Tax Advances.

(a) Requirement to Make Tax Advances. Prior to making any distributions of Net Cash Flow pursuant to Section 4.1, the Managers shall determine the extent to which any Member would have an Unfunded Tax Amount if the Net Cash Flow were distributed in accordance with Sections 4.1(b) through 4.1(d) above. If any Members would have Unfunded Tax Amounts under the circumstances described in the preceding sentence, the Company shall make advances ("Tax Advances") to such Members ("Recipient Members"), in proportion to their respective Unfunded Tax Amounts, until all Members' Unfunded Tax Amounts have been reduced to zero.

(b) Repayment of Tax Advances. Tax Advances shall be recovered by the Company from a Recipient Member by withholding any amounts otherwise distributable to the Recipient Member pursuant to Sections 4.1(b) through 4.1(d), until the amounts withheld are equal to the total Tax Advances made to the Recipient Member. Amounts withheld under the preceding sentence: (i) shall be deemed to have been distributed to the Recipient Member for purposes of determining the Recipient Member's right to share in future distributions under this Agreement; and (ii) shall be added to the Net Cash Flow and applied in accordance with the priorities in Section 4.1. If, upon liquidation of the Company, the amounts withheld under this Section 4.2(b) with respect to any Member are less than the Tax Advances received by that Member over the course of the Company's existence, then such Member shall contribute cash to the Company in an amount equal to the deficiency, which will be treated as proceeds available for distribution in accordance with Section 4.1.

4.3 General Allocation Rules.

(a) General Allocation Rule. For each taxable year of the Company, subject to the application of Section 4.4, Profits and/or Losses shall be allocated to the Members in a manner which causes each Member's Adjusted Capital Account Balance to equal the amount that would be distributed to such Member pursuant to Section 9.3(a) (iii) upon a hypothetical liquidation of the Company in accordance with Section 4.3(b).

(b) Hypothetical Liquidation Defined. In determining the amounts distributable to the Members under Section 9.3(a)(iii) upon a hypothetical liquidation, it shall be presumed that: (i) all of the Company's assets are sold at their respective values reflected on the books of account of the Company, determined in accordance with Code Section 704(b) and Regulations thereunder ("Book Value"), without further adjustment; (ii) payments to any holder of a nonrecourse debt are limited to the Book Value of the assets securing repayment of such debt; and (iii) the proceeds of such hypothetical sale are applied and distributed (without retention of reserves) in accordance with Section 9.3(a).

(c) Special Loss Allocation. If the Company incurs Losses at any time when the Members' Adjusted Capital Account Balances have been reduced to or below zero, such Losses shall be allocated to the Members in proportion to their Percentage Interests.

(d) Special Profits Allocation. If the Company incurs Profits at any time when the Members' Adjusted Capital Account Balances are less than zero and the hypothetical liquidation described in Section 4.3(b) would not result in any distributions to the Members, Profits shall be allocated to the Members in proportion to their negative Adjusted Capital Account Balances, until such negative balances have been eliminated.

(e) Item Allocations. If the Managers determine, upon consultation with the Company's tax advisors, that allocations of Profits and/or Losses over the term of the Company are not likely to produce the Adjusted Capital Account Balances intended under this Section 4.3, then special allocations of income, gain, loss and/or deduction shall be made as deemed necessary by the Managers to achieve the intended Adjusted Capital Account Balances.

4.4 Regulatory Allocations. The allocations set forth in Section 4.3 are intended to comply with the requirements of Regulations Sections 1.704-1(b) and 1.704-2. If the Company incurs "nonrecourse deductions" or "partner nonrecourse deductions," or if there is any change in the Company's "minimum gain" or "partner nonrecourse debt minimum gain," as defined in such Regulations, the Managers shall make the following adjustments to the allocations required under this Section 4:

(a) "partner nonrecourse deductions" shall be allocated to the Member who bears the economic risk of loss associated with such deductions, determined in accordance with the Regulations; and

(b) in the event of a decrease in "minimum gain" or "partner nonrecourse debt minimum gain," items of income and gain shall be allocated to the Members in the manner and to

the extent required under the Regulations to comply with any requirement for a "minimum gain chargeback" thereunder.

In addition, if a Member receives an adjustment, allocation or distribution described in Regulations Section 1.701-1(b)(2)(ii)(d)(4), (5) or (6) and as a result thereof has a negative Adjusted Capital Account Balance (after taking into account the adjustments described in the foregoing Regulations Sections), items of income and gain shall be allocated to such Member in an amount and manner sufficient to constitute a "qualified income offset" within the meaning of the Regulations.

4.5 Special Tax Allocations. The Company shall make such allocations as may reasonably be required to comply with the requirements of Code Section 704(c) and any Regulations thereunder with respect to any property contributed to the Company by any Member, using such method as is determined by the Managers, consistent with the requirements of the Regulations promulgated under Code Section 704(c). If the Book Value of any Company asset is adjusted in accordance with the Regulations under Code Section 704(b), the Company shall make allocations with respect to such asset in a manner determined by the Managers, consistent with the requirements of Regulations Section 1.704-1(b)(2)(iv)(g).

4.6 Capital Account. A Capital Account shall be maintained for each Member in accordance with the Regulations, under uniform policies and procedures established by the Managers, upon consultation with the Company's tax advisors.

4.7 Treatment of Fees. Fees payable to a Member, as provided in Article VI, shall be treated solely for tax purposes (and not for purposes of determining such Member's right to receive such fees) as "guaranteed payments" within the meaning of Code Section 707(c).

ARTICLE V MANAGEMENT OF THE COMPANY

5.1 Management of the Company.

(a) Administrative Manager – Day-to-Day Management. The day-to-day business and affairs of the Company shall be managed by the Company's "Administrative Manager". The initial Administrative Manager of the Company shall be Jonathon Vento. An Administrative Member may be removed or replaced by the affirmative vote of a majority in number of the Managers other than the Administrative Manager. If the Administrative Manager resigns, a replacement Administrative Manager may be appointed by the affirmative vote of a majority in number of the Managers other than the resigned Administrative Manager. Subject to the other terms of this Agreement, including Section 5.1(c) below, the Administrative Manager shall have the duty, responsibility and authority, of behalf of the Company, to, in accordance with each applicable Approved Budget:

(i) negotiate and execute on behalf of the Company all instruments and documents: (1) necessary to carry out the ordinary business of the Company (including, without limitation, checks, drafts and contracts which are terminable by the Company within 30 days and without penalty); or (2) approved by the Managers;

- (ii) oversee and manage the development of the Property;
- (iii) purchase liability and other insurance to protect the Company's Property and business;
- (iv) open bank accounts in the name of the Company;
- (v) temporarily invest Company funds in short term insured accounts to the extent not required to pay the current expenses of the Company's business;
- (vi) employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;
- (vii) act as the "tax matters partner" pursuant to Code Section 6221;
- (viii) pay all expenses of the Company, including, without limitation, taxes, insurance, property management fees, legal, accounting and other professional services fees and ordinary maintenance expenses, all in accordance with each applicable Approved Budget; and
- (ix) do and perform all other acts as may be necessary or appropriate to the conduct of the day-to-day operations of the Company in accordance with each applicable Approved Budget.
- (x) execute all closing documentation necessary for the acquisition of land or for the closing of condominium units on behalf of the Managers.

(b) Budget Preparation and Approval Process.

(i) Submission of Annual Budgets. On or before June 31 of each calendar year, the Administrative Manager shall prepare and submit to the Managers a proposed budget for the Company's operations for the immediately following calendar year. (each, a "Proposed Budget"). The initial Proposed Budget for the Company's operations during the period beginning on the date of this Agreement and ending on December 31, 2006, is attached as Exhibit C ("Initial Proposed Budget"). Before any Proposed Budget is implemented, the Managers will be required to approve the Proposed Budget as provided in Section 5.1(b) (ii) below. A proposed amendment to an Approved Budget will also require the approval of the Managers as provided in Section 5.1(b) (ii) below.

(ii) Review Period. The Managers shall have thirty (30) days within which to review a Proposed Budget (or any amendment to an Approved Budget proposed by the Administrative Manager). Unless a Manager objects in writing to the Proposed Budget (or an amendment to an Approved Budget) within such thirty (30) day period, the Proposed Budget (or amendment to an Approved Budget) shall be deemed approved by the Managers and shall be deemed an "Approved Budget" hereunder. The Initial Proposed Budget is hereby approved by the Managers and shall be an Approved Budget. Until any Proposed Budget or amendment to an Approved Budget is adopted, the existing Approved Budget will remain in effect, and the

Administrative Manager will be authorized to act in accordance with the previously existing Approved Budget.

(c) Managers. Except to the extent specifically delegated to the Administrative Manager pursuant to Section 5.1(a) above, the right to manage, control and conduct the business and affairs of the Company shall be vested solely in the Managers, and all decisions regarding the operation of Company and its business and affairs shall be made by the affirmative vote of a majority in number of the Managers. The Managers shall devote such time and effort to the Company and its business as is appropriate to conduct the business of the Company in an effective manner, but shall not be required to devote full time efforts to the Company. Any vote that is deadlocked shall be resolved by Jonathon Vento casting the deciding vote. Decisions requiring the affirmative consent of the Managers shall include, but not be limited to, the following:

(i) pay or commit to pay any extraordinary expense of the Company not authorized in an Approved Budget;

(ii) incur any indebtedness, commitment, obligation or liability other than as set forth in an Approved Budget;

(iii) cause the Company to enter into any agreement or contract which is not terminable by the Company within 30 days and without penalty;

(iv) sell all or substantially all of the Property or acquire or sell any other real property;

(v) causing the Company to borrow money, whether secured or unsecured, from banks, other lending institutions, any Member, any Affiliate of a Member or any other source;

(vi) cause the Company to encumber or grant security interests in its assets to secure repayment of borrowed sums;

(vii) amend the Articles of Organization, except that any amendments required under the Act to correct any inaccuracy in the Articles of Organization or to reflect a change in the Members may be filed at any time by the Administrative Manager;

(viii) authorize the Company to make an assignment for the benefit of creditors of the Company, file a voluntary petition in bankruptcy or consent to the appointment of a receiver for the Company or its assets; or

(ix) take any other action requiring the consent of the Managers under the terms of this Agreement.

(d) Company Bank Accounts. The Administrative Manager shall cause the Company to open a business checking account at National Bank of Arizona, Scottsdale, Arizona and at Union Bank, St. Charles, Illinois. The Administrative Manager shall be authorized to sign

checks in the Company's name to the extent any such check is for the payment of an expense reflected in an Approved Budget.

5.2 Limitations on Liability; Indemnity. No Manager or Member, or its or their Affiliates (an "Actor"), shall be liable to the Company or to the other Managers or Members for actions taken in good faith by the Actor in connection with the Company or its business; provided that an Actor shall in all instances remain liable for acts in breach of this Agreement or which constitute bad faith, fraud, willful misconduct or gross negligence (except to the extent the Company is compensated for the same by insurance coverage maintained by the Company). The Company, its receiver or trustee shall indemnify, defend and hold harmless each Actor, to the extent of the Company's assets (without any obligation of any Member to make contributions to the Company to fulfill such indemnity), from and against any liability, damage, cost, expense, loss, claim or judgment incurred by the Actor arising out of any claim based upon acts performed or omitted to be performed by the Actor in connection with the business of the Company, including without limitation attorneys' fees and costs incurred by the Actor in the settlement or defense of such claim; provided that no Actor shall be indemnified for claims based upon acts performed or omitted in breach of this Agreement or which constitute bad faith, fraud, willful misconduct or gross negligence.

5.3 Reimbursement of Manager Expenses. Each Manager shall be entitled to reimbursement from the Company for costs incurred by it in connection with the performance of its duties hereunder, but only to the extent such expenditures are set forth in an Approved Budget.

ARTICLE VI
FEES TO THE MANAGERS,
CERTAIN MEMBERS AND THEIR AFFILIATES

6.1 Fees. The following fees shall be paid to certain Managers, certain Members and certain of their respective Affiliates:

(a) Development Fee. In connection with the infrastructure development of the Property and the development of the office condominium buildings, the Company shall pay a development fee of \$1,000,000 (the "Development Fee") to Grace, which is owned indirectly by Jonathon Vento, a Member of Vento, and by Zeltor. The Development Fee shall be payable as follows: \$500,000 upon the close of escrow to purchase the Property (provided all equity has been received by the Company) and the balance to be paid in equal monthly installments over the remaining ten (10) month period (\$50,000 per month), commencing with the acquisition date of the Property.

(b) Building Construction Management Fee. In connection with the construction of the Property, the Company shall pay a building construction management fee of \$250,000 (the "Building Construction Management Fee") to Vento, a Manager and Member of the Company. The Building Construction Management Fee shall be paid in five (5) equal payments, commencing with the issuance of the preliminary grading permit for the buildings.

6.2 Dealing with the Company. Each Manager and any of its Affiliates shall have the right to contract or otherwise deal with the Company for the rendition of services and other purposes, and to receive payments and fees from the Company in connection therewith as the Managers shall determine; provided that: (a) such payments or fees, other than those specifically covered in Section 6.1, are comparable to the payments or fees that would be paid to unrelated Persons providing the same property, goods or services to the Company; (b) such agreements are terminable upon sixty (60) days' notice, without penalty; and (c) all such agreements are fully disclosed to the Managers prior to their effectiveness. A Manager may provide accounting and other administrative services to the Company and in such event shall be reimbursed for the cost of providing such services, provided that such cost shall not exceed the prevailing rate or cost for such services in the Phoenix, Arizona metropolitan area.

ARTICLE VII **BOOKS AND RECORDS**

The Company shall maintain and preserve at its office all accounts, books, and other relevant Company documents as may be required to be maintained under the Act or the Code. Each Member shall have the right, during ordinary business hours, to inspect and copy such Company documents at the Member's expense.

ARTICLE VIII **ASSIGNMENT OF INTERESTS IN THE COMPANY**

8.1 General. No Member shall sell, assign, pledge, hypothecate, encumber or otherwise voluntarily transfer by any means whatever ("Transfer"), either directly or indirectly, all or any portion of its interest in the Company without the consent of the Managers, which consent may be withheld in the sole and absolute discretion of each Manager. A transferee or a Member's interest in the Company will be admitted as a Substituted Member only pursuant to Section 8.3. Any purported Transfer which does not comply with the provisions of this Article 8 shall be void and shall not cause or constitute dissolution of the Company; provided, however, that this Section 8.1 shall not be construed to prohibit any Transfers between or among existing Members of the Company.

8.2 Assignee of Member's Interest. If, pursuant to a Transfer of an interest in the Company by operation of law and without violation of this Article VIII (or pursuant to a Transfer that the Company is required to recognize notwithstanding any contrary provisions of this Agreement), a Person acquires an interest in the Company, but is not admitted as a Substituted Member pursuant to Section 8.3, such Person shall be entitled to receive distributions and allocations with respect to such interest as set forth in this Agreement, including Section 8.4, but shall have no right to any information or accounting of the affairs of the Company, shall not be entitled to inspect the books or records of the Company, and shall not be entitled to any of the rights of a Manager or a Member under the Act or this Agreement.

8.3 Substituted Members. Except as provided in Section 8.1 above, no Person taking or acquiring, by whatever means, the interest of any Member in the Company shall be admitted as a Substituted Member without the written consent of the Managers, which consent may be withheld

in the sole and absolute discretion of each Manager. In addition, such Person shall satisfy the following requirements:

- (a) Elect to become a Substituted Member by delivering notice of such election to the Company;
- (b) Execute, acknowledge and deliver to the Company such other instruments as the Managers may reasonably deem necessary or advisable to effect the admission of such Person as a Substituted Member, including, without limitation, the written acceptance and adoption by such Person of the provisions of this Agreement; and
- (c) Pay a transfer fee to the Company in an amount sufficient to cover all reasonable expenses connected with the admission of such Person as a Substituted Member.

The Members shall amend this Agreement and the Articles of Organization (to the extent required by law) from time to time to reflect the admission of any Substituted Members.

8.4 Distributions and Allocations in Respect to Transferred Interests. If any interest in the Company is transferred during any accounting period in compliance with the provisions of this Article VIII, Profits, Losses, each item thereof and all other items attributable to such interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Managers. All distributions on or before the date of such Transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

8.5 Right of First Refusal. If any Member should receive a bona fide offer to purchase all or any portion of such Member's Company interest (either directly or through the sale of greater than fifty percent (50%) of the equity of such Member, if such Member is an entity), which such Member desires to accept, such Member shall first notify the other Members in writing of the name and address of the offeror and the price and terms of the offer (and forward a complete copy of said offer to each other Member). The other Members shall then have the right, for a period of thirty (30) days following the receipt of such notice, to purchase said interest, or the portion involved in the offer, for the same price and on the same terms as contained in the notice, net of any commission agreed to be paid in connection with said offer. If more than one Member elects to purchase the offered interest, then those Members shall purchase the offered interest in the same proportion as their Percentage Interests bear to one another, or in such other proportion as the purchasing Members agree. If no other Member timely elects to purchase the offered interest during the applicable thirty (30) day period, the interest may then be sold and assigned to the offeror, but only for the price and on the terms contained in the notice to the other Members. If the sale and assignment to the offeror is not be concluded within sixty (60) days following the expiration of the initial thirty (30) day period given to the other Members, no sale or assignment shall be made without again affording the other Members the right to purchase as hereinabove provided.

ARTICLE IX
DISSOLUTION AND TERMINATION

9.1 Dissolution. The Company shall dissolve upon the first to occur of the following:

- (a) The written agreement of the Managers to dissolve the Company;
- (b) The sale of all of the Company's property and the collection and distribution of all proceeds therefrom;
- (c) The entry of a decree of dissolution under Section 29-785 of the Act; or
- (d) Upon an Event of Withdrawal with respect to the last remaining Member. Except as provided in this Section 9.1(d), the Company shall not dissolve upon the occurrence of an Event of Withdrawal with respect to any Member or Manager, but shall instead continue its business without interruption until subsequently dissolved as provided in this Section 9.1.

9.2 Winding Up.

- (a) Notice of Winding Up. Following the dissolution of the Company, as provided in Section 9.1, the Managers shall execute and file a notice of winding up with the Arizona Corporation Commission.
- (b) Effect of Filing. After the dissolution of the Company, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until articles of termination have been filed with the Arizona Corporation Commission or until a decree dissolving the Company has been entered by a court of competent jurisdiction.

9.3 Liquidation.

- (a) Upon dissolution of the Company, the affairs of the Company shall be wound up and all of its debts and liabilities discharged in the order of priority as provided by law. Any gain or loss on disposition of Company properties in the process of liquidation shall be allocated to the Members in the manner set forth in Article IV. The fair market value of any property to be distributed in kind shall then be determined by an independent appraiser selected by the Managers. The difference between the value of property to be distributed in kind and its book value shall be treated as a gain or loss on the sale of the property and shall be allocated to the Members in the manner set forth in Article IV. The proceeds from liquidation of the Company assets shall be applied as follows:
 - (i) Payment to creditors of the Company, other than Members, in the order of priority provided by law, including establishment of any necessary reserves.
 - (ii) Payment of Member Loans, if any, made to the Company.
 - (iii) To the Members in accordance with Section 4.1(b) through (d).

(b) The winding up of the affairs of the Company and the distribution of its assets shall be conducted by the Managers, who are hereby authorized to do all acts authorized by law for these purposes. Without limiting the generality of the foregoing, the Managers, in carrying out such winding up and distribution, shall have full power and authority, in their discretion, to sell all or any of the Company assets, or to distribute the same in kind to the Members (and the proportion of such share that is received may vary from Member to Member), and may purchase any Company assets for the fair market value thereof, as determined pursuant to Section 9.3(a) above. Any assets distributed in kind shall be subject to all agreements relating thereto which shall survive the termination of the Company.

9.4 Articles of Termination. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Members, articles of termination shall be executed and filed with the Arizona Corporation Commission by the Managers.

ARTICLE X **MISCELLANEOUS PROVISIONS**

10.1 Notices. Any written notice, offer, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given for all purposes if delivered personally to the party to whom the same is directed or if sent by certified mail, return receipt requested, addressed to each Manager's and Member's address as set forth on Exhibit A. Any such notice that is sent by certified mail, return receipt requested, shall be deemed to be given two (2) days after the date on which the same is mailed. Otherwise, such notice shall be deemed given upon receipt. Any Manager or Member may change its address for purposes of this Agreement by giving written notice of such change to the other Managers and Members.

10.2 Article and Section Headings. The Article and Section headings in this Agreement are inserted for convenience and identification only and are in no way intended to define or limit the scope, extent or intent of this Agreement or any of the provisions hereof.

10.3 Construction. Whenever the singular number is used herein, the same shall include the plural; and the neuter, masculine and feminine genders shall include each other. If any language is stricken or deleted from this Agreement, such language shall be deemed never to have appeared herein and no other implication shall be drawn therefrom.

10.4 Severability. If any covenant, condition, term or provision of this Agreement is illegal, or if the application thereof to any person or in any circumstance shall to any extent be judicially determined to be invalid or unenforceable, the remainder of this Agreement, or the application of such covenant, condition, term or provision to persons or in circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby, and each covenant, condition, term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

10.5 Governing Law. This Agreement shall be construed and enforced in accordance with, and governed by, Arizona law.

10.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall, for all purposes, be deemed an original and all of such counterparts, taken together, shall constitute one and the same Agreement.

10.7 Entire Agreement; Amendments. This Agreement constitutes the entire agreement of the parties. All prior agreements among the parties, whether written or oral, are merged herein and shall be of no force or effect. This Agreement may only be amended by a written instrument signed by all of the Managers and all of the Members.

10.8 Further Assurances. The Members will execute and deliver such further instruments and do such further acts and things as may be required to carry out the intent and purposes of this Agreement.

10.9 Successors and Assigns. Except as otherwise provided in this Agreement, every covenant, term and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective heirs, legatees, legal representatives, successors, transferees and assigns; provided that this Section 10.9 shall not be deemed to: (a) authorize any Transfer not otherwise permitted under this Agreement; (b) confer upon the assignee of a Member's interest any rights not specifically granted under this Agreement; or (c) supersede or modify in any manner any provision of Section 8.

10.10 Waiver of Action for Partition. Each Member irrevocably waives any right it may have to maintain any action for partition with respect to any of the Company's assets.

10.11 Attorneys' Fees. In the event any party to this Agreement shall be required to initiate legal proceedings to enforce performance of any term or condition of this Agreement, including, but not limited to, the payment of money or the enjoining of any action prohibited hereunder, the prevailing party shall be entitled to recover such sums, in addition to any other damages or compensation received, as will reimburse the prevailing party for reasonable attorneys' fees and court costs incurred on account thereof notwithstanding the nature of the claim or cause of action asserted by the prevailing party.

10.12 Remedies. The rights and remedies of the Members hereunder shall not be mutually exclusive, and the exercise by any Member of any right to which it is entitled shall not preclude the exercise of any other right it may have.

10.13 Tax Elections. The Managers shall cause the Company to make all elections required or permitted to be made for income tax purposes.

10.14 Representations and Warranties. Each Member represents and warrants to the Company, to each Manager and to each other Member that:

(a) It has acquired its interest in the Company for its own account, for investment, and not with a view to or for the resale, distribution, subdivision or fractionalization;

(b) It has no contract, undertaking, understanding, agreement or arrangement, formal or informal, with any Person to sell, transfer or pledge all or any portion of its interest in the Company and has no current plans to enter into any such contract, undertaking, understanding, agreement or arrangement;

(c) It has such business and financial experience alone, or together with its professional advisers, that it has the capacity to protect its own interests in connection with its acquisition of an interest in the Company;

(d) It has sufficient financial strength to hold the interest in the Company as an investment and bear the economic risks of that investment (including possible complete loss of such investment) for an indefinite period of time;

(e) It has been afforded the same access to the books, financial statements, records, contracts, documents and other information concerning the Company and the prospective business of the Company as has been afforded the other Members and has been afforded an opportunity to ask such questions as it has deemed necessary or desirable in order to evaluate the merits and risks of the investment contemplated herein;

(f) It has performed its own due diligence with respect to its interest in the Company and is relying on that due diligence in making this investment and it is not relying on the other Members, any of the Managers or their respective Affiliates with respect to tax, suitability or other economic considerations;

(g) This Agreement constitutes a legal, valid and binding obligation of the Member enforceable against the Member in accordance with its terms; and

(h) To the Member's knowledge, the execution, delivery and performance of this Agreement by the Member does not and will not violate, conflict with or contravene any judgment, order, decree, writ or injunction, or any law, rule, regulation, contract or agreement to which the Member is subject.

(i) Upon the later of the close of escrow for the purchase of the Property by the Company or upon 100% receipt of all equity as described in Exhibit A, Grace shall be credited with predevelopment costs plus miscellaneous operating expenses as described on Exhibit D, and all deposit money will be reimbursed to the appropriate entities. All money advanced by Grace prior to close of escrow shall be treated as a member loan as described in Section 3.1(d).

10.15 Upon the close of escrow for the purchase of the Property by the Company and at all times thereafter, until the entire parcel is sold or the individual units are sold, only the Managers and NOT the Members shall be required to provide capital above the initial capital contributions used for acquisition equity and operating expenses as necessary to approve the project with the City of Burr Ridge and to pay all carrying charges required but not limited to real estate taxes, homeowner association fees, loan costs and payments, architectural fees, engineering fees, City of Burr Ridge department of real estate application and processing fees that are in excess of the initial capital collected at the formation of this Company. The Managers shall be permitted to either borrow the

additional capital necessary for completion of the project or the Managers may provide additional capital pro rata.

10.16 The Company will establish a checking account with all checks requiring approval by Jonathon Vento or Donald J. Zeleznak, who shall be the sole signators on the account.

10.17 Upon the close of escrow for the purchase of the Property by the Company, the Company shall be required to deposit all proceeds or excess capital in excess of the acquisition equity into an operating account. This money shall be used to obtain the approval of the City of Burr Ridge of the Company's development plans for the Property and to pay all carrying charges required, including but not limited to, real estate taxes, homeowner association fees, loan costs and payments, architectural fees, engineering fees, City of Burr Ridge department of real estate application and processing fees and all other predevelopment fees. This money shall be placed in a business checking account.

ARTICLE XI **DISCLOSURES**

11.1 Donald J. Zeleznak, hereby discloses that he is: (a) a licensed real estate broker or agent in the State of Arizona; (b) a manager of Grace; and (c) a member of Zeltor, which is a Member and Manager of the Company and a member of Grace. Upon the close of escrow for the purchase of the Property by the Company, Donald J. Zeleznak, PLC, licensed with Keller Williams Southwest Realty, shall be entitled to a real estate brokerage commission as representative of the Company, as the buyer of the Property. Also, after the close of such escrow, the Company shall enter into a Development Agreement and a Construction Management Agreement with Grace and an agreement with Vento to manage the design, approval, and development of the Property and the general business of the Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first above written.

VENTO INVESTMENTS, LLC, an Arizona
limited liability company, Manager and Member

By: 
Jonathon Vento, Member

ZELTOR, LLC, a Nevada limited liability
company, Manager and Member

By: 
Donald J. Zeleznak, Member

RJZ ASSOCIATES, LLC, an Arizona limited liability
company, Member

By: 
Ryan Zeleznak, Member

EXHIBIT A

<u>Managers' & Members' Names and Addresses</u>	<u>Initial Capital Contribution</u>	<u>Percentage Interest</u>
Zeltor, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$45	27%
Vento Investments, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$45	27%
RJZ Associates, LLC [REDACTED] [REDACTED] AZ [REDACTED]	\$10	6%
Investors	\$4,000,000	40%
Total	\$4,000,100	100%